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Reporting Information to Management Under Conditions of Inflation

Report on a Forum

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and Accounting Research

The Conference Board

The Conference Board, Inc.
Forum on Management Decision Making During Inflation
June 24, 1981

Attendance List

Mr. Douglas Bender, C.P.A.
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Price Waterhouse & Company

Dr. Betty Bock
Consultant
The Conference Board, Inc.

Mr. W. Warren Brown
Assistant Comptroller
American Telephone & Telegraph Co.

Mr. Henry Gunders, C.P.A.
Co-Chairman and Deputy Senior Partner
Price Waterhouse & Company

Mr. Edwin P. Harkins
Consultant
The Conference Board, Inc.

Mr. Thomas J. Hoeppner
Assistant Controller and Director of Financial Planning
General Foods Corporation

Mr. R.G. Jones
Associate Comptroller
The Procter & Gamble Company

Mr. Herbert C. Knortz
Executive Vice President and Comptroller
ITT Corporation

Mr. David K. Leak
Vice President
Federal-Mogul Corporation

Mr. Conlyn Noland
Assistant Comptroller
E.I. du Pont de Nemours & Company

Mr. William C. Norby, C.F.A.
Duff and Phelps, Inc.

Mr. Firmin A. Paulus
Director of Corporate Accounting Development
The Dow Chemical Company

Mr. Louis G. Peloubet
Controller
Union Carbide Corporation

Mr. Robert Ripp
Director of Financial Analysis
IBM Corporation

Mr. Frank W. Schiff
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INTRODUCTION

THE MONTH OF SEPTEMBER, 1979, witnessed a significant event in the history of accounting. At that time, the Financial Accounting Standards Board issued its now famous Statement No. 33, "Financial Reporting and Changing Prices." This statement was unusually important because for the first time in history it authorized a departure from the traditional, historical cost basis of accounting. It must be noted that the FASB's pronouncement prescribed this break with tradition only in the form of *supplemental* disclosures of certain financial statement items, and that the requirement applies only to a relatively small number of very large corporations. Nevertheless, it was an official recognition that inflation has seriously impaired the usefulness of conventionally prepared financial reports in that these traditional reports do not adequately inform investors of the effects of rising prices on the firms to which they have entrusted their savings.

An important point that should be borne in mind in connection with FAS 33 is that it applies only to the annual reports of corporations that are distributed to investors and to the public. It does not apply in any way to financial information prepared for the benefit of decision makers within the managements of companies. As far as anyone knows at present, few business enterprises have gone beyond the strict requirements of FAS 33 by preparing inflation-adjusted financial information for the use of their internal managements.

Nevertheless, some executives, accountants and economists have become increasingly alarmed over the lack of inflation-adjusted information that has so far been made available on a regular basis to the managers of U.S. industrial corporations. These concerned observers believe that corporate decision making based entirely on historical cost financial information is bound to be erroneous. At the microeconomic level, for example, they say it can lead to unwise corporate dividend policies or to executive compensation arrangements that reward economically unsound actions. At the macroeconomic level, they believe that conventional accounting rewards the retention of obsolete plants and equipment rather than encouraging investment in newer, more productive facilities. Thus, they feel that the competitive position of U.S. industry in world markets will suffer as a result of accounting practices that fail to show managements what inflation is doing to their enterprises in real terms.

Some of these concerned executives and accountants suggested to The Conference Board that the time had come for a serious discussion of the problems of management decision making under inflationary conditions. A closely related concern has to do with the kinds of data that managements need in order to make economically sound business decisions during inflation.

Responding to these urgings, the Board convened a forum in New York City on June 24, 1981, to examine these questions. A small but highly knowledgeable group of persons was invited. They were known to be interested in the problems and, in some cases, had done some work in their own companies to deal with them. The accompanying box lists the forum participants.

The purpose of this publication is to summarize, for the benefit of Associates of The Conference Board, the thoughts expressed by the forum participants. This paper is not a report of proceedings in the usual sense. Rather, it is intended to be a concise report of the concerns and recommendations of the members of the forum with the end in view of stimulating further thinking, discussion and experimentation on the part of the entire business community.

SUMMARY OF ISSUES AND PROBLEMS

The first contributor to the forum was Mr. William C. Norby, C.F.A., consultant to Duff and Phelps, Inc., Chicago, Illinois. Mr. Norby is well-known to the other participants in the forum because of his long-standing association with accounting issues from the viewpoint of the financial analyst, and his specialized research and writing on inflation accounting. Mr. Norby agreed to present a paper on which the issues and problems of this meeting would be focused.

He stated that the idea for the forum originated with the question: "How can companies use the inflation-adjusted accounting data now required by FAS 33 for management-control and decision-making purposes?" Later, as thinking progressed, the broadened purposes of the meeting were defined as follows:

(1) To consider how management behavior is affected by an inflationary environment;

(2) To examine whether financial data used for

management decisions need to be adjusted for inflation; and, if so, what types of data and how adjusted;

(3) To consider whether research is needed on adjusting internal financial data for inflation; and, if so, to advise on the design and execution of a research project.

With regard to purpose (1), managements have responded to inflation in several ways, notably by more widespread application of the last-in, first-out (LIFO) method of accounting for the flow of inventory costs; however, Mr. Norby observed that a considerable percentage of companies still use the first-in, first-out (FIFO) method. Some of the other forum participants agreed with this observation and expressed surprise at the survival of FIFO in an inflationary climate because this approach matches older, less inflated inventory costs against current inflated revenues and thus tends to overstate net income.

Mr. Norby also said that many companies incorporated an inflation factor in planning capital expenditure projects and for preparing financial projections. Some other forum members believe this practice is now quite common. And, he pointed out that the 1980 annual reports of some companies have shown an awareness of the inroads of inflation on the management decision-making process in various ways. Reports of the following companies were cited as examples:

American Can Company
American Standard, Inc.
Beatrice Foods, Inc.
Black & Decker Manufacturing Co.
TRW, Inc.

Regardless of how managements actually behave in response to inflation, Mr. Norby expressed the thought that this forum should address itself to the question of what strategies managements *ought* to adopt under inflationary conditions. He offered the following five possible corporate goals as a basis for discussion:

(1) Maintain operating capability in real terms; that is, maintaining the productive capacity of the business.
(2) Secure adequate and safe financing.
(3) Earn an adequate rate of return on the *current value* of the assets after providing for all current costs. This rate should be risk-adjusted and it should use as a base the average yield on long-term government bonds, expressed in nominal terms.
(4) Increase inflation-adjusted net income and dividend payouts at least as rapidly as the inflation rate, so as to maintain the stockholders' real incomes.
(5) Maintain, if possible, the real value of the company's stock in the marketplace.

He acknowledged that these goals are difficult as a composite program, but suggested that their attainment depends partly on whether inflation is anticipated or unanticipated (e.g., the period from 1978 through 1980 as against the 1973-1975 period).

In order to attain these goals, Mr. Norby suggested that management might consider the following actions, individually or in combination:

(1) Engage in aggressive pricing to the extent that competition will allow.
(2) Adopt more effective inventory controls.
(3) Improve pretax profit margins.
(4) Change financial measurement systems to report "real" results.
(5) Raise hurdle rates for new capital expenditure projects.
(6) Divest units of the business that do not pull their weight in an inflationary environment.
(7) Increase leverage by operating with a greater percentage of borrowed funds.
(8) Change dividend policy to reflect the reality of inflation.
(9) Evaluate potential acquisitions on the basis of inflation-adjusted data, particularly with regard to valuation of the acquired company's assets at current value.

The second broad purpose of this meeting—examination of the question of whether financial data used for management decision making needs to be adjusted—was addressed next by Mr. Norby. He pointed out that, as a preliminary step, the forum participants might consider the extent to which FAS 33 data is useful for management information purposes. But, he emphasized, the purpose of such an examination should not be to argue the merits or shortcomings of the methods prescribed by FAS 33.

The forum members agreed at this point that the most realistic approach to inflation accounting is the current-cost method (see box). Although FAS 33 requires that companies also prepare adjusted data using the constant-dollar method (see box), the consensus of the members was that this latter approach is less useful for internal management information purposes.

Mr. Norby then went on to point out the following attributes of the current-cost accounting method:

(1) By modifying the values attributed to inventories and long-lived assets, the income statement is made to reflect the amounts required to sustain operating capacity before any dividends are distributed.
(2) Although current cost tends to reduce operating earnings on the income statement, it increases the

The Current-Cost and Constant-Dollar Methods of Calculating Inflation Adjustments

Current-Cost Accounting

FASB Statement No. 33 defines Current-Cost Accounting as: "A method of measuring and reporting assets and expenses associated with the use or sale of assets, at their current cost or lower recoverable amount at the balance sheet date or at the date of use or sale."[1]

Current-cost accounting, unlike constant-dollar accounting, makes no attempt to retain its tie to historical dollars. The philosophy of current-cost accounting, declares, in effect, that the dollars expended at some point in the past have no relevance in the preparation of a present-day financial statement during an inflationary period. According to this view, the only relevant numbers are the dollars that would be expended if an asset were to be acquired on the balance sheet date. Proponents of this view believe that any other method of valuation is not economically realistic during inflation.

Furthermore, current-cost accounting regards the effects of inflation on an enterprise not in terms of changes in the general price level, as in the case of constant-dollar accounting. Rather, it concentrates on the price-level changes of the specific commodities or assets with which the individual firm is concerned.

The current-cost technique requires the selection of appropriate methods of determining curent costs of the items to be measured. FASB Statement No. 33 suggests internally or externally generated price indexes for the class of goods or services being measured; references to current invoice prices; vendors' price lists or other quotations or estimates; and standard manufacturing costs that reflect current costs.

Constant-Dollar Accounting

FASB Statement No. 33 defines constant-dollar accounting as: "A method of reporting financial statement elements in dollars each of which has the same (i.e., constant) general purchasing power. This method of accounting is often described as accounting in units of general purchasing power or as accounting in units of current purchasing power."

The important element in this definition for the purposes of this discussion is the concept of reporting in dollars of the same general purchasing power. Constant-dollar accounting differs fundamentally from the current-cost accounting approach in this emphasis on changes in general purchasing power, rather than on changes in prices of specific commodities or groups of commodities.

[1] Statement of Financial Accounting Standards No. 33, "Financial Reporting and Changing Prices," September, 1979. Copyright (c) Financial Accounting Standards Board of the Financial Accounting Foundation, High Ridge Park, Stamford, Connecticut 06905.

values of certain assets on the balance sheet (calculated on the basis of cost, which may not be market value). Although unrealized, such appreciation is economically significant.

(3) Current cost does not adjust for so-called purchasing-power gains or losses on monetary assets. But the economic gains from incurring debt are reflected in the appreciation of long-lived assets.

(4) Cash flow is not affected by current-cost accounting. Inflation changes the allocation of expenditures between replacement of old facilities and investment in new ones. This phenomenon can give some insight into the effects of inflation on a company.

"Bottom line" numbers that are common indicators of a company's performance are the best way to give readers of financial reports a comparison of company performance with inflation-adjusted "real" results, Mr. Norby suggested. Adjustments of the entire balance sheet and income statement are not desirable, in his opinion. For example, the following summary measurements can be adjusted, using the CPI or the GNP deflator:

(1) Current-cost earnings per share;

(2) Total earnings per share, including holding gains;

(3) Stockholders' equity per share, including revaluations resulting from applying current-cost adjustments;

(4) Dividends per share;

(5) Current-cost return on capital, including revaluations;

(6) Operating margin on a current cost basis.

At this point, there was a discussion of which commonly used measure of inflation is most useful for the purposes of accounting adjustments. Mr. Norby stated that the GNP deflator probably produces the most realistic results for business but that the CPI (Consumer Price Index) is more popular. Mr. Herbert C. Knortz, of ITT Corporation, said that the CPI is probably not too accurate for evaluating his company's business. But since this is the index chosen by the FASB for Statement No. 33 adjustments, it is probably better to go along with it for the sake of consistency. Mr. Knortz added, and several other participants concurred, that in the long run it probably does not make too much difference which index is used. The important thing is to recognize the general trend of worldwide inflation.

Industrial Inflation Accounting Index

A feature of Mr. Norby's presentation was a report of a statistical study that he has conducted. This study is an aggregation of financial statement data covering 100 industrial companies in 23 different industries for the period 1973-1980. The principal thrust of the study is to show certain key financial indicators for the group of companies *on an inflation-adjusted basis* for the period under study.

The inflation-adjusted data were derived from published financial statements of listed corporations based on FAS 33 disclosures, on replacement cost disclosures required for the 1976-1979 period by the SEC's Accounting Series Release No. 190, and on estimates for earlier years. These data and the ratios developed from them are reproduced in the appendix beginning on page 11.

The statistical study is significant because it demonstrates the kind of analysis of the effects of inflation that can be made simply with readily available, published information. Mr. Norby pointed out that, even with the acknowledged shortcomings of FAS 33 and ASR 190 computations, certain messages for company managements are clearly evident from his analysis:

(1) The profit margin is the key control point for contending with inflation.

(2) Improved asset turnover rates can reduce the effects of inflation on capital investment requirements.

(3) Increased leverage in the capital structure, while theoretically a measure for combatting inflation, has not been adopted to any extent by most companies, partly because interest coverage ratios have declined due to inflationary increases in interest rates.

(4) Return on investment based on current-cost income is far below ROI calculations based on historical-cost information. However, it is higher when unrealized holding gains are included.

(5) Although inflation adjustments do not affect cash inflows, they do reclassify cash outflows.

(6) The test of company performance in an inflationary climate is how well the bottom line results (on an inflation-adjusted basis) hold up vis-á-vis the rate of inflation.

Applying these tests, Mr. Norby concluded that, in the aggregate, the companies in his study have done reasonably well in keeping their shareholders even with inflation. However, the results fall short of the theoretical goals he suggested at the outset.

EXAMPLE OF A COMPANY APPROACH: FEDERAL-MOGUL CORPORATION

Federal-Mogul Corporation of Southfield, Michigan, has made substantial progress in developing inflation-adjusted data for management decision-making purposes. This manufacturer of precision parts, principally for the automotive and aerospace industries, is listed on the New York Stock Exchange and had 1980 sales amounting to $721 million. Its 40 manufacturing plants and 60 warehouses serve customers in nearly all free world countries. The company was represented at the forum by Mr. David K. Leak, Vice President.

Mr. Leak stated that his company has for many years operated an internal reporting system to assist management in the operation of its various lines of business. In recent years, however, high inflation has necessitated a complete overhaul of this system. This renovation sought to overcome the following problems:

> (1) *Hidden costs*—During periods of rapid inflation, the historical-cost method of accounting significantly understates cost of sales when the FIFO method of inventory costing is used. In addition, the amortization cost of any significant nonmonetary, long-lived asset may also be seriously understated.
>
> (2) *Hidden investments*—The historical cost method distorts the balance sheet values of assets. The carrying value of a LIFO inventory is unrealistically low, and so are the measurements assigned to long-lived nonmonetary assets and liabilities.
>
> (3) *Undermining of financial scoring systems*—Because of these hidden costs and hidden investments, the analytical methods commonly used to gauge the progress of an enterprise become distorted, and possibly useless, during inflation. Examples of such measurements are: sales growth, return on sales, earnings per share, return on assets employed, and return on equity.
>
> The manager of an old plant, who remains satisfied with the same historical-cost return on assets that he generated 10 years ago, is unwittingly liquidating his business because he is not producing sufficient earnings (or cash flow, either) to replace his equipment when it wears out.
>
> Cash flow is the lifeblood of any business. When prices are relatively stable, historical-cost accounting reports and the analytical methods based on them show a reliable approximation of cash flow over time. But inflation destroys the relatinship between historical cost-based data and cash flow.
>
> (4) *Distortion of sales and earnings data*—Managers who are involved with profit centers must rely on a large amount of detailed sales, cost, expense and variance data. Inflation has seriously diminished the value of this information if it is based on historical dollars.

Mr. Leak stated that a business must learn to deal with the above problems to survive in a climate of high inflation. In his company, the principal thrust along these lines is in the management and control of assets and in making managers aware of hidden costs and hidden investments. To this end, the following three general principles are observed:

(1) Management reports must be based on current, not historical, costs.
(2) Monitoring of cash flow is vital and management has the duty to ensure that assets are well-controlled and fully utilized.
(3) Reports to management must be designed to highlight the hidden costs as well as the more obvious effects of inflation.

In observance of these general principles, Mr. Leak went on to explain briefly the steps that have been taken to implement them.

Current-Cost Reporting

The company has adopted LIFO for all locations in order to provide a cost-of-sales valuation that approximates current costs. Also, LIFO reserves against balance-sheet carrying amounts were deleted from profit-center management reports. This change helps to keep inventory valuations close to current costs on these reports.

A computerized accounting system for plant and equipment accounting has been installed. All profit-center managers now have available both the historical cost and current cost of facilities, plus related depreciation information.

Management of Productive Capacity

Federal-Mogul Corporation is a capital-intensive enterprise and its management controls are designed to make sure that its facilities are fully utilized. Management is so concerned with this objective that labor cost controls are considered to be of secondary importance.

The control process starts with a financial evaluation of the business broken down into product line and market segments. The key measure is return on net assets (RONA) where:

Return = Pretax plant profit before depreciation expense and after selling and distribution expenses.
Net assets = Accounts receivable plus inventories (at current cost) plus productive facilities used in the segment (at current cost before depreciation), less trade payables.

This evaluation requires the allocation of all plant costs to business segments. Another complication is that some products and parts are sold in more than one market. Therefore, the company found it necessary to develop full cost and investment standards by part numbers to permit reassembly of these data according to various market segments.

Mr. Leak said that, when first instituted, the return on net assets evaluation of business segments created a few surprises for management. For example, some segments that were thought to have "fat" profits did not look so profitable when it was observed that a very high capital investment was required to generate these profits. The opposite was true for some segments that were formerly believed to have low profits.

Naturally, this measurement approach, when first instituted, was not universally accepted. But it has proved to be a valuable tool for top management in helping to focus strategic planning on those business segments that were doing the most for the company in generating profits. At the plant level, it has helped by quantifying the effects of management decisions concerning machine efficiency, surplus capacity, set-up time, and expansion or contraction of certain activities. Over time, management has shifted its focus from profit margins to return on net assets as the standard for daily decision making.

Management of Inventories

The shift in emphasis to the return on net assets measurement has also had the beneficial effect of directing local managers' attention to the maintenance of inventory investments at more economical levels. Also of great importance in the control of inventories is the company's effort to reduce set-up times. Mr. Leak stated that this effect has reduced the level of economic manufacturing quantities, with a corresponding reduction in inventory investments.

Receivables and Payables

As indicated above, Federal-Mogul Corporation's return on net assets formula requires the identification of accounts receivable and accounts payable with product lines and market segments. A side benefit from this development is increased local management interest in improved purchasing methods, as well as invoicing and collection procedures. Mr. Leak stated that the savings resulting from reduced investments in working capital items justified the company's investment in the computer capability that made the accounting refinements possible. He also reiterated that the reporting systems and improved controls over assets were designed, above all, to optimize cash flow. And, he added, better cash flow produces better performance figures under any system of measurement.

Federal-Mogul Corporation Approaches to Inflation Adjustments in Management Reports

Standards are set annually for product costs, selling prices, and the purchase prices of all the major components of cost. Subsequently, all purchases are charged to expense or inventory at the budgeted standard price with any residue going to a "cost/price" variance account. Thus, the cost of inflation is isolated for reporting as goods or services are purchased.

Standard variable costs are adjusted whenever inflation causes an increase of 3 percent or more in total cost. Because purchases are charged to inventory at the budgeted standard price, sales are dual-costed at current and budgeted standards. Cost of sales is reported at current cost, inventory is relieved at budgeted cost, and the residue is reported as a "standards change" variance. Of course, this also means that variances are expressed in constant dollars through the year, which is more helpful to management than variance reporting which represents a combination of inflation and operating deviations.

Sales also are dual-priced at budget and current prices, providing a price deviation amount for reporting purposes. A manager who receives an earnings statement which indicates the changes in selling prices, purchase prices, and standards changes can tell at a glance if price increases are keeping up with cost increases and whether standards are properly maintained. Other variance accounts are reported in constant dollars and are accurate measurements of operating deviations. The measurement of price increases also indicates the inflation in accounts receivable. Year-end inventories are dual-priced at budgeted and current standards, which provide accurate tracking of the change in unit inventories and a realistic inflation index for inventory.

Period costs are reported in the same manner as variable costs, but are detailed in the usual section of the statements. Price/cost variances are computed and reported. Operating period cost variances represent the cost of underutilization of productive capacity or a deviation in unit purchases. All variances are appropriately detailed in subreports in a manner which allows the management team to assess its operation.

The company also tracks and reports cash flow on a quarterly basis. Its management feels that a simple, operating cash flow statement is the best measurement of overall operating results during periods of high inflation. A FIFO company has high theoretical cash flow from earnings, but must "invest" much of it into constantly inflating inventories. A new plant generates more cash flow from depreciation than an old plant. Cash flow may be an excellent measuring tool; however, it is virtually useless to the operating manager who wants to identify specific problems in his operation.

Reporting

Returning to the subject of inflation accounting, Mr. Leak stated that, since 1975, the company's internal income statements and certain balance-sheet items have been adjusted to reflect current costs. Some details as to the approaches used are outlined in the accompanying box.

Summary

In summing up his presentation, Mr. Leak stated that high inflation has caused considerable changes in the management of Federal-Mogul Corporation. Management reports have been converted from the historical cost basis to current costs; emphasis has been shifted from return on sales to return on net assets and to improving cash flow; and the reporting system has been redesigned to separate the effects of inflation from operating variances. Management believes that the ability to maintain or expand market share, with products priced to give an acceptable return on the company's current-cost investment, is the true test of the long-term health of the company and of any business segment. The entire accounting, reporting and planning system has been developed to measure actual performance against that test.

OTHER VIEWPOINTS

Several other forum members reported the experiences and conceptual approaches of their companies in trying to manage effectively during inflationary times. For example, Mr. Herbert C. Knortz, Executive Vice President and Comptroller of ITT Corporation, explained how his firm, some time ago, undertook capital expenditures in excess of certain inflation-adjusted guidelines. Although the situation has eased in recent years, the problem of determining the proper size of the total capital expenditures budget during inflationary times has continued to interest the company's management.

Mr. Knortz believes that conventional financial statements are not much help to corporate management in this respect. Instead, he points to the need for a new financing document that will show how much is available in discretionary funds. Modifying the conventional sources and applications of funds statement format, and introducing depreciation on the basis of current costs, Mr. Knortz presented the analysis reproduced as Exhibit 1. Using published annual report data, this document shows clearly how much of an increase or decrease in debt was necessary to finance the firm's activities in 1980. Such a format could, of course, be used for forecasting purposes as well. Commenting on the need for some form of revised financial statement format for internal decision-making purposes, Mr. Knortz stated:

Exhibit 1: ITT Corporation Discretionary Spending—1980
(Thousands of Dollars)

Operating Sources of Funds		
Net Income, Including Minority Earnings	$941,391	
Plus:		
Interest expense after tax	302,896	
Non-cash items:		
Depreciation per books	498,563	
Reserves and deferred items	(25,250)	
Sale of timber facilities	200,603	
Operating funds available		$1,918,203
Replacement and capital costs		
Depreciation per current cost basis	$(880,000)	
Cost of capital:		
Dividends at 50% of ordinary net income	(425,646)	
Interest expense after tax	(302,896)	
Minority equity	(23,505)	
Funds required		(1,632,047)
Discretionary funds available		286,156
Discretionary applications		
Working capital, excluding short-term debt	$ 45,317	
Net plant additions, beyond adjusted depreciation	(45,260)	
Equity changes in insurance and finance	(252,549)	
Dividends (over) under 50% level	66,389	
Other (investments) and divestments	48,774	
Changes in capital stock	33,239	(104,090)
Net decrease (increase) in interest-bearing debt		$ 182,066

"A P and L statement is not a financing document; it is a representation of earnings. It suggests that if I bought something for X and sold it for Y, the difference is profit. In inflation accounting, we change the X and we now have a reduced profit. But what we really are trying to do is finance the next transaction in the line. I submit that instead of having a different income statement, we really ought to be working toward a more useful financing document."

There were no further detailed presentations because the programs of the other companies represented at the forum were, for the most part, still at very early stages of their development. Nevertheless, there was considerable discussion of the problems brought to light in the company programs described above. In addition, there was much concern expressed over the problem of productivity and how to measure it. The consensus was that, at this point, nobody really knows how to quantify productivity, especially when it is brought about by technological changes.

Some concern was expressed over the fact that FAS 33 data seem to indicate that some major corporations are not earning enough (on an inflation-adjusted basis) to meet their dividend payout schedules. The feeling seemed to be that, over time, these companies are on safe ground as far as their dividends are concerned. But some of them may be unwise in failing to reserve more cash for financing purposes, instead of paying out so much to their stockholders.

CONSENSUS OF THE FORUM

Several points seemed to come through rather clearly during the discussion. For one thing, the forum participants believe quite strongly that their responsibilities as preparers and auditors of financial reports go beyond merely informing investors and the public of the effects of inflation; this requirement is satisfied, at least to some extent, by compliance with FAS 33. A much more pressing concern of the discussants is how to assist corporate managements and boards of directors in discharging their responsibilities during inflationary times. There is no equivalent of FAS 33 to help in this effort.

Some of the panel members are experimenting with new reporting approaches and formats, as indicated in the preceding sections of this report. But few gave any indication of strong satisfaction with the results obtained so far. There seemed to be a feeling that most companies are groping in the dark—that is, if they are even aware of the need to provide management information that will be helpful in decision making during inflation. Furthermore, even those companies with such awareness are a small minority of the total population. The general feeling was that probably the majority of firms are doing little or nothing.

Two things appear to be needed to help overcome these deficiencies. One is a responsible research study that will bring to light the practices being developed by the presumably small number of firms that attempt to provide inflation-adjusted information to their executives. Such a study should concentrate on describing the state of the art in those leading-edge firms that are actually doing something. Little benefit would be derived, in the discussants' view, from a "nose count" study, for example, showing how many (or how few) firms develop inflation-adjusted information for decision-making purposes.

Even more important, in the opinion of the forum members, is the need for two kinds of educational efforts directed at managements of U.S. corporations. One facet of such an effort is to convince senior managements and boards of directors of the importance of the problem and to make them aware that it is far broader than merely presenting alternative accounting information. The second aspect of the educational requirement is to convince management at all levels that inflation-adjusted data are more valid in the present environment than the conventional, historical-cost data to which they are accustomed.

Several of the participants called attention to the pioneering efforts of General Electric Company and Professor David Hawkins of Harvard University in educating management to think in terms of inflation.

On this latter point, Mr. Leak reported that his company has enjoyed considerable success with its in-house training program. This activity ranges all the way from supervisory training courses to three-day financial seminars for senior executives. There are also five-day training sessions given twice a year for middle managers. A good portion of these programs is devoted to indoctrinating the attendees with the concepts and usefulness of the company's inflation-adjusted management system.

There was widespread agreement that it is usually very difficult to convince operating executives to accept inflation-adjusted information. In addition to upsetting long-standing thought patterns, these data are perceived as threats by many management people. The reason is, of course, that they naturally object to accounting measurements which result in lower profits for the entities under their direction because such measurements reflect unfavorably on their performance as managers. And this problem is worsened in situations where a manager's compensation is tied to the financial performance of his unit.

There were several expressions of pessimism among the forum members on two points. For one thing, the outlook for containing or reducing the spread of inflation in the economy is not considered bright, according to those who commented on this matter. The other area of pessimism had to do with the general usefulness of presenting inflation-adjusted data to readers, either outside or within the company.

As far as outside consumers of financial information are concerned, Mr. Norby observed that many financial analysts do not seem to have shown much interest in FAS 33 data so far. Another member added that his company has spent a great deal of money, programming time, and so on, to produce FAS 33 data showing that inflation-adjusted profits are much lower than those reported on the conventional basis. But he does not see that any particular benefit has resulted—either for the stockholders or for the company's management. Turning to the application of inflation adjustments to management reports, one member asked what good these adjustments will be to local managers if they are already pricing their products as aggressively as competition will allow.

In response to these objections, other members of the forum agreed that inflation-adjusted data cannot, by themselves, solve the problems of investor or management decision making under inflationary conditions; all they can do is bring peoples' attention to the real state of affairs. The main objective is to get readers of financial statements (especially managers, in the context of this meeting) to focus on *real* economic returns in the process of decision making. As one participant stated: "A company that deals properly with inflation over time will be strong regardless of which accounting measurements are used. A company that does not deal with it properly will be weakened."

Still another participant summed up: "The problem we're dealing with here is much broader than just inflation accounting. Inflation accounting is a set of techniques that have been developed to try to measure, to some degree, whatever are real results. But another aspect is the question of educating the operating managers and boards of directors of corporations. Would you consider this as a pretty good definition of the problem that we are trying to deal with?"

APPENDIX A:
INDUSTRIAL INFLATION ACCOUNTING INDEX
1973-1980

Developed by
William C. Norby, C.F.A.

NOTES

1. This index is comprised of 100 industrial companies in 23 industry categories. There are no oil or forest product companies as yet. The index is still in the process of refinement and some of the data may be subject to correction at a later date. Eventually, the base will be expanded to 110 companies. In the meantime, the data should be considered preliminary.

2. Current cost adjustments for 1980 are based on FAS 33 data; for 1979 on either FAS 33 or ASR 190, whichever was reported; for 1976-1978 on ASR 190; and for earlier years on estimates by the author. The adjustment methods employed by the reporting companies are not entirely comparable through these years, with significant discontinuities between ASR 190 and FAS 33 depreciation for six companies. FAS 33 depreciation is lower in all cases but one. Nevertheless the trends are reasonably indicative on an aggregate basis.

100 Companies
(Billions of Dollars)

INCOME ACCOUNT

	1973	1974	1975	1976	1977	1978	1979	1980
Sales	$289,807.7	$331,906.6	$349,954.9	$398,036.3	$448,824.8	$519,569.1	$586,354.1	$630,803.2
Cost of Goods Sold — Reported	200,641.3	233,754.3	247,985.5	279,674.4	318,452.4	364,541.7	422,469.7	458,045.8
Current Cost of Goods Sold	203,882.3	240,843.7	249,986.8	281,806.5	320,898.3	367,581.1	425,629.1	462,976.9
Current Cost Increment to COGS	3,241.0	7,089.4	2,001.4	2,132.2	2,446.0	3,039.5	3,159.4	4,931.2
Depreciation, Depletion, Amortization — Reported	10,339.1	11,356.9	12,314.9	13,303.4	14,781.3	16,476.3	19,141.5	21,857.8
Current Cost Depreciation	12,560.9	14,824.4	17,106.6	18,867.7	21,049.7	23,430.6	26,822.9	30,760.1
Current Cost Increment to Depreciation	2,221.8	3,467.5	4,791.7	5,564.3	6,268.3	6,954.3	7,681.4	8,902.2
Balance for fixed charges — Reported	33,418.7	33,525.3	33,901.3	42,886.0	48,099.3	57,077.3	57,289.0	53,478.8
Balance for fixed charges — Current Cost	27,955.9	22,968.3	27,108.2	35,189.6	39,385.0	47,083.5	46,448.2	39,645.4
Total Interest Expense	3,280.6	4,486.6	4,879.2	4,775.0	5,474.7	6,422.0	7,767.2	10,390.6
Pretax Income — Reported	30,138.1	29,038.7	29,022.1	38,111.1	42,624.6	50,655.3	49,521.7	43,088.2
Less: Total Current Cost Increment	5,462.8	10,557.0	6,793.1	7,696.5	8,714.3	9,993.9	10,840.8	13,833.4
Current Cost Pretax Income	24,675.3	18,481.8	22,229.0	30,414.6	33,910.3	40,661.4	38,681.0	29,254.8
Current income tax	12,713.1	11,422.7	11,825.5	15,683.6	18,558.0	20,968.3	19,652.5	15,805.5
Deferred income tax	871.5	1,574.5	1,144.1	1,371.5	750.4	1,790.4	882.8	1,714.7
Total income tax	13,584.6	12,997.2	12,969.5	17,055.1	19,299.0	22,758.8	20,534.3	17,520.2
Net income before Extraordinary Items — Reported	17,002.6	16,269.3	16,296.5	21,685.2	24,387.4	29,146.0	30,206.1	26,441.7
Current Cost Income before Extraordinary Items	11,539.8	5,712.4	9,503.5	13,988.7	15,673.1	19,152.2	19,365.4	12,608.3
Preferred dividends	220.6	239.1	235.3	237.9	259.4	261.3	365.3	445.1
Reported Net Income for Common before Extraordinary Items	16,782.0	16,030.3	16,061.2	21,447.3	24,133.2	28,884.8	29,840.9	25,861.6
"LIFO" Earnings (COGS Adjustment Only)	13,541.0	8,940.9	14,059.9	19,315.2	21,687.2	25,845.2	26,681.4	20,930.4
Current Cost Net Income for Common	11,319.2	5,473.3	9,268.1	13,750.9	15,418.8	18,890.9	19,000.1	12,028.2
Reported Net Income for Common after Extraordinary Items	17,034.1	16,298.2	16,426.1	21,721.8	24,384.3	29,453.8	29,914.5	26,792.5
Dividends on Common	6,945.3	7,061.3	7,085.4	8,761.3	10,418.3	11,465.4	12,768.2	12,993.4
Retained Net Increment — Reported (before Extraordinary Items)	9,836.7	8,969.0	8,975.8	12,686.0	13,714.9	17,419.3	17,072.7	12,868.2
Current Cost Retained Net Income (before Extraordinary Items)	4,373.9	−1,588.0	2,182.7	4,989.5	5,000.6	7,425.5	6,231.9	−965.3
Holding gain — inventory	4,668.1	12,305.8	3,518.2	4,400.2	4,750.5	6,404.6	9,380.8	9,895.4
Holding gain — plant and equipment	7,906.8	22,240.2	16,078.9	16,540.1	14,388.2	22,400.2	14,497.0	27,741.8
Economic Income	24,114.7	40,258.4	29,100.6	34,929.0	34,811.8	47,956.9	43,243.1	50,245.5

100 Companies

	1973	1974	1975	1976	1977	1978	1979	1980
			COMMON SHARE DATA — EQUALLY WEIGHTED INDEX					
Stock Price Index — Year-End	38.94	27.62	40.19	48.44	41.90	43.02	44.98	48.75
Reported Income per Share	2.98	3.20	3.14	4.04	4.47	5.54	5.99	5.19
Current Cost Income per Share	1.58	0.98	1.63	2.07	2.38	3.38	3.53	2.32
Economic Income per Share	4.39	8.55	6.12	6.52	6.42	9.89	9.06	9.87
Dividends per Share	1.15	1.28	1.35	1.54	1.77	1.95	2.19	2.23
Retained Current Cost Income per Share	0.44	−0.31	0.28	0.53	0.61	1.43	1.35	0.09
"LIFO" Earnings per Share (COGS Adjustment Only)	2.13	1.76	2.70	3.41	3.87	5.02	5.35	4.09
				MARKET RATIOS				
P/E Reported Income (before Extraordinary Items)	13.1	8.6	12.8	12.0	9.4	7.8	7.5	9.4
P/E Current Cost Income (before Extraordinary Items)	24.6	28.2	24.7	23.5	17.6	12.7	12.7	21.0
P/E Economic Income (before Extraordinary Items)	8.9	3.2	6.6	7.4	6.5	4.3	5.0	4.9
P/E "LIFO" Income	18.3	15.7	14.9	14.2	10.8	8.6	8.4	11.9
Dividend Yield	2.9	4.7	3.4	3.2	4.2	4.5	4.9	4.6
			ANALYTICAL RATIOS — % OF SALES					
Cost of Goods Sold Adjustment	1.12	2.14	0.57	0.54	0.54	0.59	0.54	0.78
Depreciation Adjustment	0.77	1.04	1.37	1.40	1.40	1.34	1.31	1.41
Total Current Cost Adjustment	1.88	3.18	1.94	1.93	1.94	1.92	1.85	2.19
Reported Historical Cost Net Income	5.87	4.90	4.66	5.45	5.43	5.61	5.15	4.19
"LIFO" Net Income	4.75	2.77	4.08	4.91	4.89	5.02	4.61	3.41
Current Cost Net Income	3.98	1.72	2.72	3.51	3.49	3.69	3.30	2.00
Economic Income	8.32	12.13	8.32	8.78	7.76	9.23	7.37	7.97
				OTHER RATIOS				
Depreciation Rate	6.41	6.36	6.48	6.53	6.61	6.57	6.65	6.76
COGS Adjustment % Reported Income	19.06	43.58	12.28	9.83	10.03	10.43	10.46	18.65
Depreciation Adjustment % Reported Income	13.07	21.31	29.40	25.66	25.70	23.86	25.43	33.67
Current Cost Adjustment % Reported Income	32.13	64.89	41.68	35.49	35.73	34.29	35.89	52.32
				TAX RATES				
Current Tax Rate — Reported	42.2	39.3	40.7	41.2	43.5	41.4	39.7	36.7
Deferred Tax Rate — Reported	2.9	5.4	3.9	3.6	1.8	3.5	1.8	4.0
Total Tax Rate — Reported	45.1	44.8	44.7	44.8	45.3	44.9	41.5	40.7
Current Tax Rate — Current Cost	51.5	61.8	53.2	51.6	54.7	51.6	50.8	54.0
Deferred Tax Rate — Current Cost	3.5	8.5	5.1	4.5	2.2	4.4	2.3	5.9
Total Tax Rate — Current Cost	55.1	70.3	58.3	56.1	56.9	56.0	53.1	59.9
Dividends % Reported Net Income	42.1	44.9	44.9	41.5	43.8	40.2	43.5	50.8
Dividends % Current Cost Net Income	62.1	127.8	77.0	64.3	68.1	61.2	67.8	106.6
Dividends % Cash Flow	25.4	25.6	24.7	24.9	26.8	24.6	25.7	25.9

BALANCE SHEET

100 Companies	1973	1974	1975	1976	1977	1978	1979	1980
				ASSETS				
Cash and Equivalents	$ 19,177.3	$ 16,859.2	$ 23,209.4	$ 31,026.0	$ 33,119.1	$ 34,966.2	$ 30,739.4	$ 30,027.9
Accounts Receivable	39,712.2	45,006.9	46,183.5	50,814.4	58,766.4	69,370.8	78,092.0	85,560.9
Inventories — Reported	48,210.5	58,992.7	58,334.2	63,115.8	68,973.7	77,704.4	89,020.4	95,699.1
Current Cost Value of Inventories	52,765.0	68,763.6	69,621.9	76,671.5	84,834.0	96,929.7	114,467.0	126,109.9
Unrealized Holding Gain	4,554.5	9,770.9	11,287.7	13,555.7	15,860.2	19,225.2	25,446.6	30,410.8
Net Plant	83,970.0	94,363.2	102,713.5	111,329.5	122,604.5	139,858.6	159,757.1	183,898.6
Current Cost Value of Net Plant	111,572.3	138,846.8	156,348.5	173,516.3	191,807.8	221,947.3	245,884.1	286,096.3
Unrealized Holding Gain	27,602.3	44,483.5	53,635.0	62,186.8	69,203.2	82,088.6	86,127.0	102,197.7
Intangible Assets	3,259.6	3,811.4	3,542.8	3,531.9	3,500.0	4,465.9	5,378.8	5,335.9
Total Tangible Assets — as Reported	214,475.5	241,055.6	257,393.4	286,356.9	318,540.3	361,900.5	403,983.1	453,913.8
Total Tangible Assets — at Current Cost	246,632.4	295,309.9	322,316.0	362,099.4	403,603.8	463,214.3	515,556.7	586,522.4
				LIABILITIES AND STOCKHOLDERS' EQUITY				
Current Liabilities excluding Short-term and Long-term Debt	47,555.9	54,367.3	57,421.7	67,040.3	77,497.5	92,218.0	102,185.1	115,671.4
Short-term Debt	10,901.1	14,749.1	10,713.9	10,613.2	11,857.6	12,217.5	17,250.2	22,087.7
Long-term Debt	31,570.0	36,607.0	42,040.6	43,512.3	48,494.4	53,771.9	57,581.7	67,332.9
Other Long-term Liabilities	5,423.3	5,739.2	5,793.2	6,869.9	9,043.6	10,537.4	13,353.9	14,005.9
Present Value of Financing Leases	1,511.5	1,891.5	2,135.7	2,424.0	1,103.5	2,560.5	2,777.2	2,768.9
Total Fixed Obligations	49,406.0	58,586.8	60,683.3	63,419.5	70,499.1	79,087.3	90,963.0	106,195.3
Deferred Taxes	5,076.5	5,951.9	7,011.5	8,213.8	8,870.3	10,857.8	12,602.5	16,228.6
Minority Interest	1,533.0	1,726.9	1,929.1	1,816.3	1,959.7	2,132.2	2,334.3	2,554.2
Preferred Stock — Liquidating value	4,564.6	4,802.2	4,625.9	4,727.0	5,175.8	5,796.5	6,586.7	6,975.2
Common Stock Equity — (Modified)	106,339.8	115,220.8	125,722.1	141,139.9	154,538.1	171,808.8	189,311.8	206,289.2
Revaluation Surplus	32,156.9	54,254.4	64,922.7	75,742.5	85,063.4	101,313.8	111,573.5	132,608.4
Total Stockholders' Equity — at Current Cost	143,061.3	174,277.4	195,270.7	221,609.5	244,777.3	278,919.2	307,472.1	345,872.9
Total Liabilities and Stockholders' Equity — at Current Cost	246,632.5	295,310.2	322,316.3	362,099.4	403,603.9	463,214.3	515,557.0	586,522.4
				COMMON SHARE DATA — EQUALLY WEIGHTED INDEX				
Average Shares Outstanding	5,813.4	5,865.7	5,838.8	5,996.2	6,007.6	6,134.4	6,183.4	6,391.7
Book Value per Share — Modified — Reported	21.03	23.49	25.43	29.84	32.80	35.96	38.85	40.27
Unrealized Holding Gains per Share	6.48	11.63	13.62	16.70	18.34	21.62	23.70	26.18
Book Value per Share — at Current Cost	27.51	35.12	39.05	46.54	51.14	57.58	62.55	66.45
Unrealized Holding Gains % Reported Book Value	30.5	49.5	53.6	56.0	55.9	60.1	61.0	65.0

MARKET RATIOS

100 Companies

	1973	1974	1975	1976	1977	1978	1979	1980
Market/Book Value Ratio — Reported — Year-end	1.85	1.18	1.58	1.62	1.28	1.20	1.16	1.21
Market/Book Value at Current Cost Value	1.42	0.79	1.03	1.04	0.82	0.75	0.72	0.73
Average Total Capital — Reported	$152,259.0	$169,660.0	$185,020.6	$200,158.9	$219,749.7	$243,452.8	$271,777.1	$303,160.5
Average Total Capital — at Current Cost	181,615.7	212,865.7	244,609.1	270,491.6	300,152.6	336,641.4	378,220.8	425,251.7
Average Stockholders' Equity — Reported	105,578.4	115,463.7	125,185.5	138,107.5	152,790.4	168,659.5	186,751.9	204,581.4
Average Stockholders' Equity — Current Cost	134,935.0	158,669.3	184,774.0	208,440.1	233,193.4	261,848.2	293,195.6	326,672.4
Total Earnings — % Average Total Capital — Reported	13.3	12.2	11.4	13.2	13.6	14.6	14.0	11.9
Current Cost Total Earnings % Average Total Capital at Current Cost	8.2	4.8	5.9	6.9	7.0	7.6	7.2	5.2
Net Income — % Average Stockholders' Equity — Reported	16.1	14.1	13.0	15.7	16.0	17.3	16.2	12.9
Current Cost Net Income % Average Stockholders' Equity	8.6	3.6	5.1	6.7	6.7	7.3	6.6	3.9
Reinvestment Rate % Average Stock Equity — Reported	9.3	7.8	7.2	9.2	9.0	10.3	9.1	6.3
Reinvestment Rate % Average Stock Equity — Current Cost	3.2	−1.0	1.2	2.4	2.1	2.8	2.1	−0.3
DEBT RATIOS — INTEREST COVERAGE								
Total fixed obligations % Total Capital — Reported	30.8	33.0	31.8	30.3	30.6	30.8	31.7	33.2
Total fixed obligations % Total Capital — Current Cost	25.7	25.3	23.7	22.3	22.4	22.1	22.8	23.5
Interest Coverage — Reported	10.2	7.5	6.9	9.0	8.8	8.9	7.4	5.1
Interest Coverage — Current Cost Basis	8.5	5.1	5.6	7.4	7.2	7.3	6.0	3.8
ASSET TURNOVER								
Sales to Inventory at Current Cost	5.49	4.83	5.03	5.19	5.29	5.36	5.12	5.00
Sales to Fixed Assets at Current Cost	2.60	2.39	2.24	2.29	2.34	2.34	2.38	2.20
Sales to Tangible Assets at Current Cost	1.18	1.12	1.09	1.10	1.11	1.12	1.14	1.07
Sales to Tangible Assets — Reported	1.35	1.38	1.36	1.39	1.41	1.44	1.45	1.38
SELECTED REAL RESULTS TO THE SHAREHOLDER (COMMON SHARE DATA EXPRESSED IN 1972 DOLLARS)								
Consumer Price Index — Urban 1972 Year-end = 100	108.8	122.1	130.6	136.9	146.2	159.4	180.6	203.0
% Change for Year	8.8	12.1	7.0	4.8	6.8	9.0	13.3	12.4
INCOME FLOWS								
Current Cost Income per Share	$1.46	$0.80	$1.25	$1.51	$1.63	$2.12	$1.96	$1.14
Dividends per Share	1.06	1.05	1.03	1.12	1.21	1.22	1.21	1.10
Retained Current Cost Income per Share	0.40	−0.25	0.22	0.38	0.42	0.90	0.75	0.04
Economic Income per Share	4.03	7.00	4.68	4.76	4.39	6.21	5.01	4.86
WEALTH EFFECTS								
Current Cost Book Value per Share	$25.28	$28.76	$29.90	$34.00	$34.98	$36.12	$34.64	$32.73
Market Price — Year-end	35.79	22.62	30.77	35.38	28.66	26.99	24.91	24.01

FUNDS STATEMENT

100 Companies	1973	1974	1975	1976	1977	1978	1979	1980
				GROSS CASH FLOW				
Reported Net Income	$17,002.6	$16,269.3	$16,296.5	$21,685.2	$24,387.4	$29,146.0	$30,206.1	$26,441.7
Plus: Depreciation, etc.	10,339.1	11,356.9	12,314.9	13,303.4	14,781.3	16,476.3	19,141.5	21,857.8
Plus: Change in Deferred Tax Reserve	869.4	875.4	1,059.5	1,202.4	656.5	1,987.6	1,744.7	3,626.1
Gross Cash Flow from Operations	28,211.1	28,501.6	29,671.0	36,191.0	39,825.2	47,609.9	51,092.4	51,925.6
				CAPITAL MAINTENANCE REQUIREMENTS DUE TO INFLATION				
Monetary Working Capital — Average	−6,711.6	−8,602.1	−10,299.3	−13,732.0	−17,478.5	−20,789.1	−23,470.2	−27,101.8
Price Change in COGS (PPI)	0.20	0.23	0.08	0.06	0.07	0.08	0.09	0.10
Required Change Monetary Working Capital	−1,342.3	−1,944.1	−844.5	−892.6	−1,223.5	−1,663.1	−2,065.4	−2,710.2
COGS Current Cost Increment	3,241.0	7,089.4	2,001.4	2,132.2	2,446.0	3,039.5	3,159.4	4,931.2
Fixed Asset Maintenance at Current Cost	12,560.9	14,824.4	17,106.6	18,867.7	21,049.7	23,430.6	26,822.9	30,760.1
Total Capital Maintenance Requirement	14,459.6	19,969.7	18,263.4	20,107.3	22,272.2	24,807.0	27,916.9	32,981.1
Discretionary Operating Cash Flow	13,751.5	8,531.9	11,407.5	16,083.7	17,553.1	22,802.9	23,175.4	18,944.5
Capital Maintenance % Cash Flow from Operations	51.3	70.1	61.6	55.6	55.9	52.1	54.6	63.5
				DISCRETIONARY EXPENDITURES: DIVIDENDS AND INVESTMENT FOR GROWTH				
Dividends Paid	7,166.0	7,300.3	7,320.7	8,999.2	10,677.7	11,726.7	13,133.5	13,438.6
Monetary Working Capital Change Due to Volume	−921.8	427.2	−1,033.2	−4,095.1	−1,281.7	−2,453.0	819.4	−3,307.1
Inventory Change due to Volume	3,304.0	3,692.9	−2,660.0	2,649.5	3,411.9	5,691.1	8,156.5	1,747.5
Capital Expenditure Excess of Capital Maintenance	5,449.0	7,841.4	5,200.0	3,634.9	5,419.8	8,083.4	13,389.9	16,604.2
Net Cash Flow Before Financing	−1,245.5	−10,729.9	2,579.9	4,895.2	−674.6	−245.3	−12,323.9	−9,538.7
				FINANCING				
Net Change in Total Fixed Obligations	5,450.6	9,580.8	1,696.6	2,736.2	7,079.6	8,588.1	11,875.8	15,232.3
Stock Financing — Net	642.0	418.9	1,492.0	1,272.4	64.1	842.1	1,181.1	2,094.9
Total Financing	6,092.6	9,999.7	3,188.6	4,008.6	7,143.7	9,430.2	13,056.9	17,327.2
Net Change Other Items and Cash	4,847.0	−730.2	5,768.5	8,903.8	6,469.1	9,184.9	733.0	7,788.5
				RATIO: CAPITAL MAINTENANCE TO GROWTH				
Required Monetary Working at Capital Current Cost to Volume Change	1.46	−4.55	0.82	0.22	0.95	0.68	−2.52	0.82
COGS Current Cost Increment to Inventory Volume Change	0.98	1.92	−0.75	0.80	0.72	0.53	0.39	2.82
Fixed Assets Maintenance to Excess Capital Expenditures	2.31	1.89	3.29	5.19	3.88	2.90	2.00	1.85
Number of Companies on:				ACCOUNTING METHODS				
Primarily LIFO and Accelerated Depreciation	4.0	11.0	12.0	12.0	12.0	11.0	11.0	11.0
Primarily LIFO and Straight Line Depreciation	17.0	38.0	39.0	39.0	39.0	40.0	43.0	44.0
Primarily FIFO and Accelerated Depreciation	20.0	12.0	12.0	12.0	13.0	13.0	13.0	12.0
Primarily FIFO and Straight Line Depreciation	59.0	39.0	37.0	37.0	36.0	36.0	33.0	31.0

Appendix B: Additional Readings

The literature of accounting, economics and general business has included an abundance of thoughtful writing in recent years on the subjects of inflation accounting and coping with an inflationary environment. The selections in the following listing are offered only as examples of what is available. An important criterion for listing in this appendix is that the suggested references are relatively easy to obtain. The information and explanations in these references will greatly enhance the reader's understanding of the matters discussed at The Conference Board's forum.

Baxter, John D., "Managers Turn to Real Dollar Data for Help," *Iron Age,* March 24, 1980.

Connor, Joseph E., "Elections Come, Elections Go: Inflation Persists," *Financial Executive,* March, 1981.

Loomis, Carol J., "How GE Manages Inflation," *Fortune,* May 4, 1981.

Lucas, Timothy S., *Understanding Inflation Accounting,* Financial Accounting Standards Board, Stamford, Connecticut, 1981.

Rappaport, Alfred, "Inflation and Corporate Dividends," *Financial Executive,* February, 1981.

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Revsine, Lawrence, "Let's Stop Eating Our Seed Corn," *Harvard Business Review,* January-February 1981.

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Webster, Frederick E., Jr.; James A. Largay, III; Clyde P. Stickney, "The Impact of Inflation on Marketing Decisions," *Journal of Marketing,* Fall, 1980.

"Which Inflation Rate Should Business Use?" *Business Week,* April 7, 1980, p. 94.

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The Corporate Perspective

by John Hein

The Conference Board

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IN JULY, 1981, a panel of economists, planners and analysts in U.S. private industry were asked by The Conference Board for their assessment of economic conditions abroad in 1982. Specifically, the panel members were asked for "projections of economic activity for countries that are important in your company's foreign operations or on which you normally gather information. You may include projections of gross national product, industrial production, inflation rates, and so forth, as well as a brief discussion of the assumptions on which these forecasts are based."

This report is based on the replies received from panelists in 15 major business organizations. Eleven of these are among the 250 largest U.S. industrial corporations as listed by *Fortune;* three are in the financial and transportation sectors. Most of the material submitted was prepared between early July and early September.

The Conference Board believes that this kind of survey—of which this is the sixth—is valuable, since these corporate assessments are important in determining the level and mix of capital expenditures, marketing programs, and production schedules for the companies' foreign affiliates. In preparing their projections companies obviously do not generate their own basic data, but derive those from a wide variety of sources—government agencies, banks, econometric services, and so forth—both in the United States and abroad. That information is then adapted in the light of a company's own experience in order to erect a suitable framework for overseas planning.

This theme of utilizing the projections as background for operating purposes recurs constantly in the material submitted. As one panelist remarked: "The information shown has been extracted from a more comprehensive outlook, prepared by a multidisciplinary team and developed twice a year as input to our strategic planning and budgeting cycles." Others similarly noted that the material was prepared "in connection with review of strategic plans for international operations," or was put together "three times per year to coincide with the three stages of our corporate planning process."

Indeed, it is worth stressing that the data developed by the panelists for internal corporate use are not predictions, but merely estimates of the ranges within which certain parameters might fall in the near term. Moreover, as one participant pointed out, these estimates "do not depict extreme developments. They are *mean* results of the possible paths economies might follow in the absence of such major disruptions as cutoffs in oil supplies, world crop disasters, and so on."

Thus, these corporate forecasts aim to incorporate all relevant known information about the near future, using methods that range from the highly technical to pure hunch. Moreover, to the extent that one can "assume away" both major external shocks and major policy shifts, the performance of past estimates can be used to narrow the range of uncertainty about the future. And while it is often difficult to know why a particular forecast turned out to be wrong, that does not mean, however, that the accuracy of the historical record can necessarily be judged by the size of the errors alone (see box).

On Forecasting Errors

Forecasting ability cannot be measured *absolutely* by the magnitude of errors because the degree of uncertainty varies over time. "Small" errors, relative to historical experience, are a poor measure of forecasting skill in a period when all other forecasters are even closer to the mark. "Large" errors are not a sign of incompetence in periods when all other forecasts are even worse. Ideally, forecasting ability must be judged *comparatively,* not absolutely. A "good" forecast is one that is more accurate than everyone else's regardless of the size of the error. A forecast is "poor," no matter how small the error, if other forecasts produced smaller errors.

Stephen K. McNees, "The Optimists and the Pessimists: Can We Tell Whose Forecast Will Be Better?" Federal Reserve Bank of Boston, *New England Economic Review,* May/June, 1981.

GENERAL OVERVIEW

In its midyear economic review, released last July, the Organization for Economic Cooperation and Development (OECD), which encompasses the 24 major industrial countries, noted: "The immediate outlook is complex and difficult for most countries, with a protracted transition from recession to renewed growth, accompanied by inflation and unemployment which are are too high, yet hard to reduce." The Conference Board's *International Economic Scoreboard* commented in October that, to judge from the leading economic indicators for July and August, recovery abroad "may have stalled, but not necessarily ended" (see Chart 1).

The U.S. Commerce Department noted similarly that foreign industrial production had declined in the second quarter of this year and stood only 0.4 percent above the low reached during the 1980 recession, "reflecting slow and hesitant progress." This markedly weak recovery in output abroad contrasted sharply with the experience in 1974-1975, when foreign production had recorded a steady 19-month upturn from its low in mid-1975.

The panel shared the generally cautious view on where the major economies were currently at, with only slight differences as to the direction they were going to take next year. However, there were some marked differences of opinion as to the underlying causes for the "complex and difficult" outlook. Most panelists were at pains to stress that recovery abroad—whenever it came and however delayed it might be—would be relatively "unsynchronized" and slow.

Thus, one respondent wrote: "Economies in the industrialized world are not snapping back from recession or stagnation. But recoveries are on their way." Another commented: "The recession of 1980-1981 has about run its course, and the world economies now stand poised for a slow but sustained recovery." Only one lonely voice felt that, with economic activity continuing quite weak, recovery remained "elusive," especially among the European economies.

The panelists generally agreed that the current situation reflected to a large degree the authorities' determination to avoid the mistakes of the early 1970's, when most countries had employed expansionary measures to offset the deflationary effects of the first "oil shock." This time around policymakers everywhere seemed determined to maintain fiscal and monetary austerity long enough to squeeze inflation out of their economies once and for all. One panelist detected three distinct factors that were affecting the current outlook and were making it particularly important to be prepared "for more than the ordinary amount of mid-course correction" of country projections:

> "The broadest and most elusive of these is the redefinition of the national goals that is going on in much of the world. Examples abound. Here in the United States, there is a new direction in fiscal and monetary policy and in the stance on defense. In Canada, there are regional struggles over energy policy and the relative powers of the federal and provincial governments. Britain is trying to reduce the government's role in the economy. Similar fundamental changes are afoot elsewhere, sometimes in one direction, sometimes in another. The political currents thus set loose will, to a major extent, determine how we deal with the problems that confront us.
>
> "The other two factors are more tangible, although just as unpredictable. Last year there was a consensus, albeit an incorrect one as far as this year is concerned, that real oil prices would continue to increase. Now there is general confusion and disagreement on future oil prices. But it is clear that oil prices have a direct impact, in one way or another, on inflation rates and balance of payments.
>
> "The last fact, which has been particularly disturbing to the operations of multinational companies, is instability in interest and exchange rates. Over the past year, the prime rate in the United States has ranged from a high of 20½ percent to a low of 10½ percent. Exchange rates have shown similar dramatic shifts."

Panelists were not unanimous, however, on the role played by the United States and by U.S. economic policies in the current plight of the industrial world. Remarked one respondent: "The near-term outlook for the major foreign economies, particularly Western Europe, depends to a large extent on U.S. monetary policy over the next few quarters. As long as U.S. policy remains restrictive, it is unlikely that Western Europe will be able to turn to more expansionary policies, for a unilateral decision to do so would lead to a further decline in their currencies against the dollar."

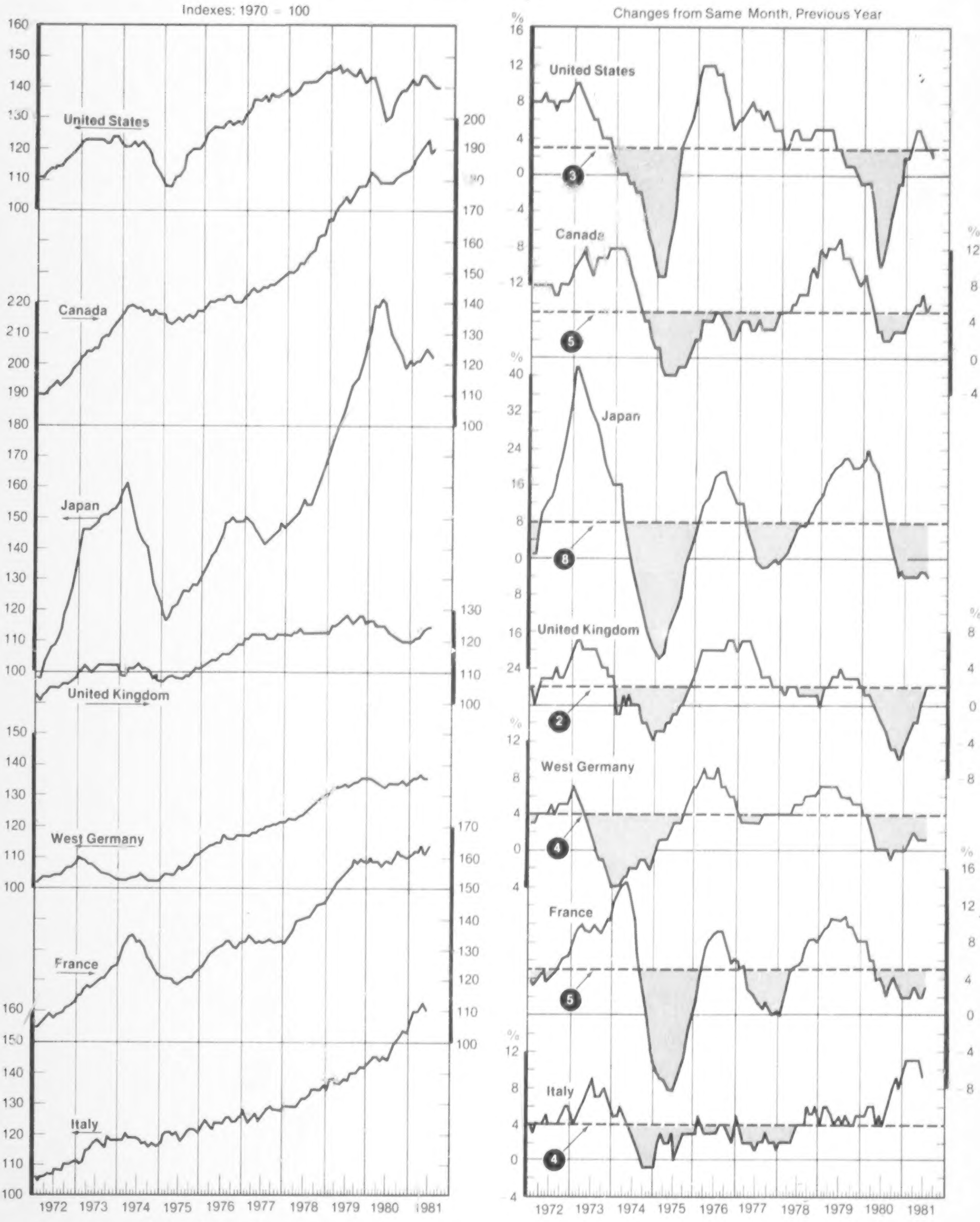
Another panelist came out with a diametrically opposed view: "In our opinion, the economic and social strains afflicting Europe and Japan have nothing to do with U.S. behavior. We believe that the immediate causes are the inordinate rises in oil prices, the high debt-to-GNP ratios prevailing in Europe, and geopolitical considerations." Elaborating on the second point, he noted that, while the U.S. budget deficit amounted to approximately 1 percent of gross domestic product, the equivalent burden was substantially higher abroad, and that it was this fact that prevented European policymakers from applying greater fiscal stimulus. (The relevant ratios are given below.)

Net Government Borrowing as Percent of Gross Domestic Product, 1981

Belgium	9.7%	Ireland	11.7%
Denmark	5.7	Italy	8.4
France	1.8	Netherlands	3.2
Germany	3.8	United Kingdom	4.3

Chart 1

Leading Business Cycle Indexes



Source: *International Economic Scoreboard*, The Conference Board, October, 1981

On the third point, he commented: "The dynamics of Russian imperialism, both directly and through a global network of mercenaries and surrogates are realities which businesses no less than governments abroad understand perfectly well, and which are having significant impact on investment plans."

Another respondent also noted that: "The growing budgetary deficit is not a unique U.S. phenomenon. Rather, it is a common malady being suffered by all the major industrial economies where governments have assumed increasing economic and social responsibilities." He added that government expenditures for the seven major industrial countries combined rose from 32 percent of gross national product in 1970 to 42 percent last year. Thus, in the current policy mix, fiscal policies virtually everywhere are unsupportive of monetary policies, and "gradualism and caution will only defer the judgment day."

MAJOR INDUSTRIAL COUNTRIES

The panel's assessment of the outlook for the major industrial countries abroad generally pointed in the same direction, but there were, of course, diverse and often widely scattered views as to the actual numbers for individual countries. Some of these projections by various participants are shown in Chart 2, in order to illustrate the range of "most likely" outcomes foreseen by panel members. As counterpoint to these projections the table below gives the latest official forecasts by the OECD. (Projections for the smaller industrial countries and several developing countries are given in the appendix.)

The early 1980's will not be exactly easy for **Canada,** according to the latest annual review by that country's Economic Council. The Council cited pervasive problems of inflation, government and trade deficits, unemployment and sluggish growth as issues that were likely to persist in the near term. But it also warned that unless the questions of domestic oil pricing policy, delays in energy investment, acceleration of inflationary pressures, and the federal government deficit were dealt with, they could affect the economy's performance over the medium term as well. The Council was particularly concerned that, so long as uncertainty about energy pricing and the sharing of oil revenues persisted, large-scale investments in energy and ancillary industries would be held up.

Moreover, as a private Canadian research organization pointed out recently, trends in both Canadian economic policy and activity have tended to be largely determined by events in the United States. There were, in fact, few, if any, buffers that could protect Canada from the spillover of U.S. policy or from the depressed state of U.S. business activity. "Canada's vulnerability is a fact of life and can be reduced over time only by policies that reduce the deficit on trade in goods and services and improve the adequacy of domestic energy supply."

The Official Forecast of Growth and Inflation

	Percentage changes at annual rates				
	From previous year		*From previous half-year*		
Growth of Real GNP	*1981*	*1982*	*1981*	*1982*	
			II	*I*	*II*
United States	2.5	1.0	0.5	0.5	2.5
Canada	2.5	2.5	1.75	3.0	2.75
Japan	3.5	4.0	3.0	4.0	5.0
France	—0.5	1.75	0.25	2.0	2.5
Germany	—1.5	2.0	—1.5	2.75	3.75
Italy	—0.75	1.75	0.5	2.0	2.75
United Kingdom	—1.5	0.25	—1.0	0.5	1.0
Total of seven countries	1.25	1.75	0.5	1.75	3.0
Other OECD countries	1.25	3.0	2.0	3.0	3.5
Total OECD	1.25	2.0	1.0	2.0	3.0
GNP Deflators					
United States	9.0	7.75	7.0	8.25	7.25
Canada	10.5	11.0	10.75	11.0	10.75
Japan	5.0	4.75	5.5	4.5	4.5
France	11.75	11.5	11.5	11.75	11.0
Germany	4.25	3.5	3.5	3.5	3.25
Italy	19.0	17.5	18.5	17.5	16.0
United Kingdom	13.5	10.0	12.5	9.25	8.5
Total of seven countries	9.0	8.0	8.0	8.25	7.5
Other OECD countries	13.25	11.75	12.75	11.75	11.0
Total OECD	9.75	8.75	9.0	8.75	8.25

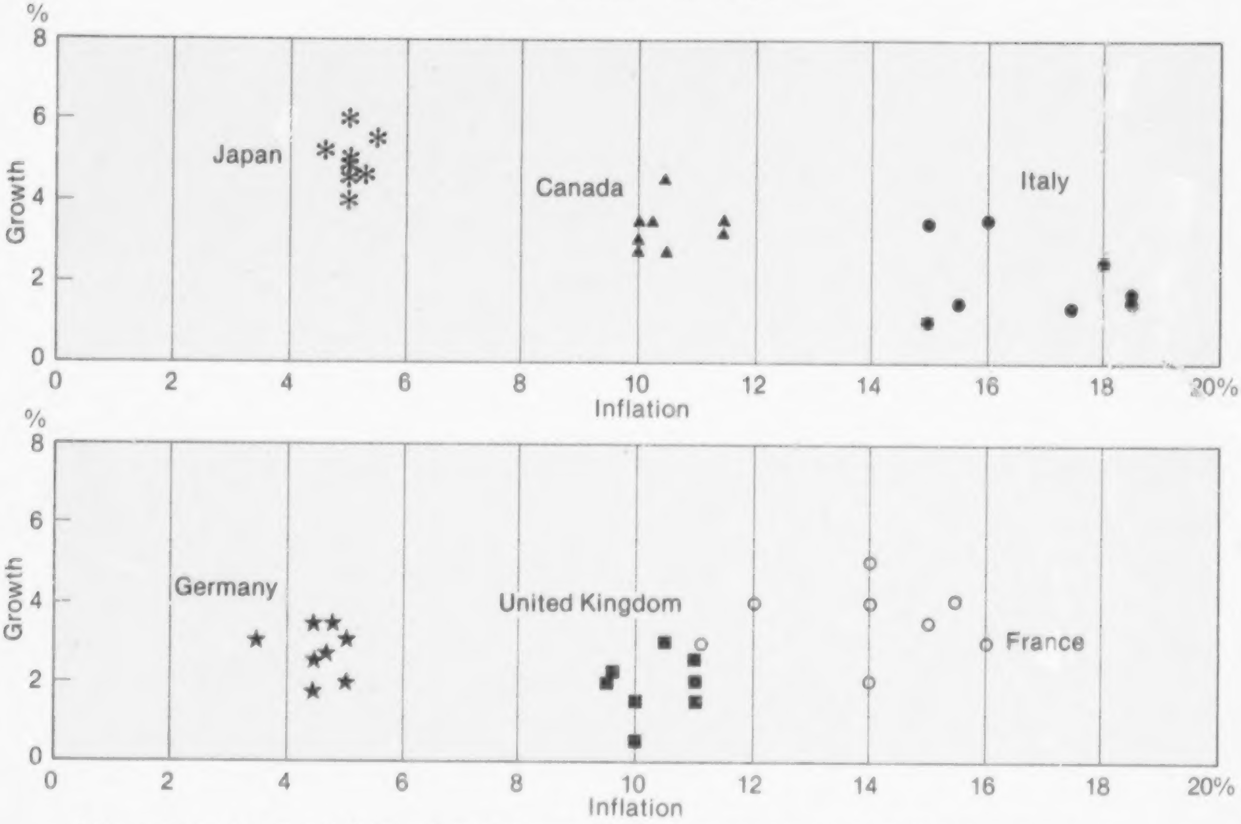
Source: Organization for Economic Cooperation and Development, *Economic Outlook*, July, 1981.

While the panel members were fully cognizant of these and related issues, their attention naturally was focused on the year ahead. An amicable and mutually acceptable solution to the problem of energy pricing was the keynote in most replies. Renewed growth of the country's economy—generally estimated at between 2.7 and 3.5 percent for 1982 by the majority of panel members—was predicated on prospects "for some compromise solution on energy policies between Ottawa and Alberta that will improve the environment for energy-related investment." Another panelist similarly commented that "interregional friction over energy and natural resource policies, if unresolved, could lead to sharp cuts and delays in the energy investments assumed in the outlook."

Panelists also stressed the traditionally close links between the U.S. and the Canadian economies. Not only was activity in Canada dependent to a considerable extent on the performance of the United States, but the decline of the Canadian relative to the U.S. dollar has raised the cost of products imported from the United States. In addition, domestic investment funds have left the country for the even higher rates of return available in the United States, while capital inflows for business ventures have

Chart 2

Growth and Inflation in Six Countries: Forecasts for 1982



Observations represent forecasts for growth and inflation rates in 1982 for a given country as submitted by individual panelists.

fallen off. The toughening of the attitude of the country's Foreign Investment Review Agency with respect to the entry of foreign interests has further discouraged such inflows. (In late September, the proposed strengthening of the agency's powers was shelved by the government.)

Nevertheless, one panelist believes that 1982 "has the potential to be a year of improvement, both in terms of real growth and on the inflation front." In fact, the panel was nearly unanimous on the price picture, predicting an inflation rate of 10 to 10.5 percent, as against 12 to 13 percent this year. To some extent, this improvement reflects dissipation throughout the economy of the initial effects of the new energy policy. Moreover, as the economies of Canada's major trading partners are expected to grow somewhat faster next year, the prospects are for modest gains in exports.

Japan, the monthly letter of a major New York bank pointed out recently, "is confident but hardly relaxed. It combines a public stance of sturdy self-assurance with semipublic twinges of self-doubt." This Janus-like attitude emerges in various appraisals of Japan's near-term economic prospects. Thus, Keidanren, the Japanese federation of industry, earlier this year saw the country's economy as "experiencing a slowdown because it is still in the process of absorbing the shock of the second oil crisis." Moreover, the federation suggests, current economic trends indicate "that it will be no easy task for Japan to achieve even modest growth in the rest of the decade. Indeed, the Japanese economy could veer off in the wrong direction if its underlying strength or 'resilience' were to be overestimated on the basis of its outward performance of recent years."

Among the potentially adverse factors cited by Keidanren are uncertainties in the energy outlook; fairly strong exports causing "trade friction if Japan fails to act properly at a time when the economies of its trading partners remain in distress"; and little optimism over inflation prospects if higher prices for energy and raw materials keep adding to costs.

Taking a somewhat limited and shorter run view, The Conference Board's panel foresees a generally growing

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pace of economic activity for Japan in the second half of 1981 and well into 1982. Thus, by late this year the Japanese economy is expected to have fully recovered from its mild downturn, and by the end of 1981 inflation is expected to have slowed down considerably. In addition, the yen is seen as strengthening next year because of slowing inflation and rising productivity. Indeed, just as in 1981, Japan's growth rate for next year once more is expected to be the highest for the industrial countries.

But, beyond this general picture, most respondents focused on two key issues likely to bedevil the Japanese authorities for some time to come--exports and defense. One sketched the background this way: "Prime Minister Suzuki is having some rough sailing. There are two key foreign issues. One is Washington's determination that Japan spend more on defense. The other is protectionism." Writes another: "The United States and the EEC are likely to intensify demands for easier access to Japanese markets and greater voluntary control of Japanese exports. On defense, the United States will continue to push for a bigger effort on the part of the Japanese."

Indeed, with Japan's trade balance and current account improving, as the yen remains temporarily undervalued against the dollar and most other major currencies, the continued penetration of Japanese exports into major overseas markets is arousing concern all around. In the wake of the agreed-on cutback of autombile sales to the United States—and similar cuts to the European Community—it is believed that these (and future) reductions in overseas auto sales may well be made up by a new export drive centered on goods with high technological content, such as microcomputers, word processors, videotape recorders, and industrial robots.

It remains to be seen how this export drive will fare once the yen begins to strengthen against the dollar. That may happen once the economy begins to turn around—and may depend on factors other than simply interest-rate levels in dollar markets.

Discussing the outlook for **France** in 1981, this survey noted a year ago that Prime Minister Raymond Barre, once billed as "France's best economist," had completed four years in office. During that time, he had presided over an extraordinary change in French economic life: He had slowly begun "to take the government out of business." Alas, as the Romans had it, *tempora mutantur,* and the wheel now seems to have swung full circle.

The election of Francois Mitterand as president last May, and the return of the Socialists to power after 23 years, marked a political revolution of the first magnitude. But, as *The Banker* remarked shortly after the election, "whether France has also opted for economic revolution remains less certain." Nevertheless, major changes have been announced at three separate levels. First, proposals are being drawn up providing for substantial devolution of power from Paris to local governments, giving regions and municipalities the right to decide major issues locally (spending, planning, etc.). The second shift involves an expansion of the public sector through nationalization of major enterprises. The third component aims at a vast redistribution of income in favor of the lower income sectors.

Mr. Mitterand was elected on an economic platform that appears to have something for everybody—ranging from rises of 50 percent in family allowances and state pensions, through over 200,000 additional public-sector jobs, to a reduction from 40 to 35 hours in the workweek. Further promised benefits include retirement at 60, a fifth week of vacations, a 23 percent rise in the minimum wage, and a 50 percent increase in housing subsidies to tenants. The weakness of such a spending binge is, of course, that it would create an enormous budget deficit and rapid inflation. Also on the drawing boards are proposals for windfall profit taxes for the banking and oil industries, a surtax on higher level incomes, and higher sales (value-added) taxes on some luxury items. In addition, the government committed itself to the biggest nationalization program of any Western European country in 20 years—covering five large industrial companies and the 36 biggest banks.

This gigantic program is being prescribed for the French economy at a time when it already is facing a number of problems—unemployment standing at 1.5 million, and perhaps heading for 2 million by year-end; a rise in consumer prices of 1.8 percent in July, pointing to an 18 percent inflation rate for the year as a whole; a weakened franc; and a growing trade deficit.

The uncertainties and complexities generated by this scenario are apparent in the views of the panel. "The new programs are going to be expensive; monetary policy has been complicated by the need to defend the franc; inflation remains a problem; the corporate sector is hurting; we do not believe that France has entered a golden age." Similar observations dot the panel's replies. True, despite such misgivings and full recognition of the problems facing the country, all panelists agree that France still will outperform the other European economies next year. Although the current economic recovery is seen as being "based on a weak foundation," and "it is too early to predict the economic consequences of the election very precisely," France is "widely expected to lead the rest of Europe."

As to the government's ambitious program, one panel member alludes to speculation as to the extent of Mitterand's ability to put all of his proposed policies in place. "Mitterand will have to walk a tightrope in balancing overly stimulative and inflationary social and economic programs desired by the people with overly restrictive and deflationary monetary policies used to

A Stitch in Time?

In early October, the finance ministers of the European Community (EC) raised the value of the German mark (as well as of the Dutch guilder) by 5.5 percent, and lowered that of the French franc and the Italian lira by 3 percent, against the other EC currencies. These changes were made within the framework of the European Monetary System (EMS), the Community's joint currency float against the dollar and other outside currencies. (The United Kingdom so far has not joined the EMS.)

While the realignment was hailed by European bankers and businessmen as "unavoidable and long overdue," its immediate effects are difficult to predict. Generally speaking, by making exports of France and Italy more competitive and imports more expensive, the change is designed to reduce those countries' trade deficits and help restore international confidence in their currencies. The French authorities already have announced that now there would be no need to impose import controls as they had threatened.

German goods now will be more costly on foreign markets, but German producers are confident that the impact on their exports will only be marginal. Certainly, the D-mark revaluation will help dampen inflation imported from other EMS partners. Two days after the realignment, the German central bank in fact lowered its so-called Lombard rate—the rate it charges to banks on borrowings secured by securities collateral.

check inflation's growth." Moreover, he adds, if the promised socialist reforms should backfire, inflation could increase at an alarming pace over the next few years before any retrenchment in the program could succeed in curbing it.

In fact, given the dimensions of the change in climate in France, any projections made at this time "are clearly subject to wide ranges of potential error." But even so, the panel feels that certain broad conclusions about the future course of the French economy can be drawn. Any major resumption of business investment has been dimmed by nationalization and by an official policy that is generally regarded as unfavorable to the business community. "The prospects of higher wage costs, the possibility of a 35-hour workweek and a fifth week of annual vacation, and the likelihood of higher taxes, fewer investment incentives and higher interest rates all point to shrinking margins and severe weakness in the investment sector over the next few years." That weakness will be partially offset, however, by increased consumer spending, particularly at the lower end of the income scale.

On the other hand, the combination of these factors will also tend to boost inflation—especially the anticipated decline in investment and productivity. The brunt of this would be borne by companies as their labor costs rise, and it is an open question at this time whether the government would try to counter this by re-imposing price controls—which the previous government had dismantled. However, the new government is said to be fully aware of the constraints that high inflation, a substantial balance-of-payments deficit, and the need to maintain investor confidence in France are placing on its freedom of action. The consensus, therefore, is that while France is about to take a step leftwards, it is a relatively small one, but one that nevertheless may weaken her economically.

In mid-1981, the "five wise men" of **Germany**—that country's equivalent of the U.S. Council of Economic Advisers—presented to the government a rather embarrassing report on the state of the German economy. The report pointed out that uncontrolled government spending, a huge balance-of-payments deficit, and immoderate wage demands on the part of the unions were the principal reasons behind Germany's prolonged recession. The report did not link the country's continued sluggish growth to the effects of high U.S. interest rates.

While the German council is required by law to produce one report a year and can also be asked by the government to provide additional analyses, it is rare indeed for it to produce a report on its own initiative—and when it does, it can be taken as a clear sign that the economy is in trouble. Indeed, the deficits run up by the huge public sector—federal, state and local authorities—have grown rapidly since the first oil shock in 1973, while the balance of payments on current account last year racked up the biggest deficit—some $16 billion equivalent—among the western countries. The ensuing fall in the value of the D-mark and the consequent need to keep interest rates high or raise them even further to control the outflow of funds have imposed severe restraints on the conduct of domestic monetary policy.

Yet, in its monthly report for September the Bundesbank, the country's central bank, noted how the German economy had made notable progress in the preceding months "in adjusting to the changed external conditions." In a highly optimistic analysis, the bank concluded that gloomy prophecies of continued recession had failed to materialize and that gross national product during the first half of 1981 had maintained the level of the previous six months. This development, in turn, had to be attributed to strong exports, and the high backlog of foreign orders was expected to continue exercising a stimulating impact on the economy. The bank considered

and then they wonder why they don't feel so good. We could not get them to eat a good breakfast, but what we did do is to provide midmorning snacks that were especially fortified with a sandwich-like meal, and that did provide necessary nutrition."

A communications company representative reports that his company supplies a substantial meal to employees in many less-developed countries, including Chile, Argentina, Brazil and Angola. The meal is of a high protein variety, specifically designed to insure high energy levels. The executive believes that supplying the meal has not only provided increased nutrition for employees, but has also allowed workers to stretch their family food budgets and increased the nutrition of spouses and children. Another firm has a similar program and, in order to assess the nutritional impact on both the workers and their families, invites all employees and family members in for a free annual checkup. This company has been providing meals for its employees for several years; and in a recent annual servey could find only four out of two thousand children examined who were malnourished.

Besides providing company meals, firms are also interested in giving employees more information about their nutritional needs and the ways they can be met from local food sources. Again, custom sometimes interferes with these efforts. For example, one firm operating in the Transvelt says that local tradition provides that employers would supply workers with a quarter of a loaf of bread each day, and that the bread would be spread with a lardlike substance. But the company nutritionists soon found that this "diet supplement" still left workers with substantially unbalanced diets. They mounted an educational campaign among the work force and provided additional food supplements. After some months, significant improvements in fatigue levels were reported.

Even more dramatic results can be achieved in government-sponsored, societywide nutritional education programs. In Haiti, for example, approximately two-thirds of all the children suffer from malnutrition. In a combined MIT-Harvard nutrition education program, implemented at government nutrition centers in Haiti, mothers learned how to prepare more nutritious meals by combining beans with rice, corn and sorghum—all locally available foods. The MIT-Harvard program found that in one district of 100,000 people, hospital admissions for malnutrition fell by more than 50 percent in seven years. And the death rate as a result of malnutrition for children under four years of age, declined by 83 percent. Somewhat similar programs in Nepal and Indonesia have also produced significant reductions in malnutrition, particularly among infants.

Companies also report that they are attempting to help employees stretch their family food dollars by either acting as a purchasing agent for food materials—particularly in areas of the world where food distribution systems are inefficient or inadequate—or by helping employees to form their own food purchasing cooperatives. One American company in Peru says that it goes a step further and provides its employees with a basic ration that not only includes company food products manufactured in Peru, but other of the firm's products made in other parts of the world. Such basics as toilet paper and soap, which are not made by the company, are also included in the ration.

The forum participants were asked to try to assess the precise results that their companies' various nutritional programs have produced. But pinpointing such benefits proved a difficult task, and very few of the firms questioned have any precise data on this point. In general, their position is summed up by a company representative reporting on his firm's experience in South Africa: "Our feeling is that if we offer a nutritional meal, either free or at a very reduced cost, and employees take advantage of it, there will be improvements in both attendance and productivity. But at this point, I think, we are just doing this on a gut feeling that improvements must result from such programs."

Company Sponsored Health-Care Facilities

Besides providing nutritional support for employees in the form of meals and food supplements, companies also build health-care facilities, ranging from clinics to full-fledged hospitals, to serve the health-care needs of their employees and of nearby resident populations. Several of the forum participants noted that their companies routinely conduct health-facility surveys in areas in which they intend to look at new plants. They examine the public-health infrastructure and the availability of trained medical personnel in these areas. One executive, reporting on his firm's experience in a South American country, says: "We felt it necessary to make massive additional investments in upgrading the quality of local health services. That turned out to be an investment over and above what we were required to do by the government of that country. But we did it on the theory that it would pay back sooner or later, even if we were not able to measure the effects accurately."

It might be assumed that firms would be most likely to develop extensive local health-care facilities in rural and remote areas, districts in which there is practically no health infrastructure. But the company executives say that in nearly every case their firms have operations that are also located in major urban centers in the LDC's. And even in these areas the firms frequently operate health-care facilities, including clinics and hospitals.

One major food producer, operating in Central America, reports that it has operated a system of clinics in outlying production areas, and a general hospital in a major port city, for nearly 80 years. These facilities provide free health care to employees and subsidized help to the expansion of exports "particularly noteworthy," since it came at a time when total world trade was growing only slightly.

These contrasts between longer range basic problems and an incipient economic recovery were mirrored in the views expressed by The Conference Board's panel. As one panelist saw it: "Germany, the pivotal European economic power, faces constraints on its growth." He then cited the forecast by one of the large German banks that real annual growth would decline from 3.5 percent during the past five years to 2 percent or so in the next five. And while this year's wage increases of around 5 percent were somewhat below the current rate of inflation, the outlook for inflation and, hence, for continued wage moderation has deteriorated with the threat of inflation imported from France.

However, there is general agreement among the panelists that the current recession is over—or at least has bottomed out—although there is less agreement on when the recovery will take off. Opinions ranged all the way from "improvement in the second half of 1981 followed by full-fledged recovery next year," through growth resuming "early in 1982," to "slow recovery after June, 1982." However, investment growth, especially in the construction sector, is seen as remaining weak until late in 1982 as low capacity utilization rates, uncertain demand prospects, flagging confidence, high interest rates, and unstable exchange rates all take their toll.

Nor did the panel fail to single out the public sector deficit, which has become a political issue. In the first quarter of 1981, the deficit for all levels of government amounted to almost 8 percent of gross national product, up from 5.5 percent a year earlier. According to one calculation, the total for this year might easily absorb up to one-half of private savings. The budget for 1982, presented at the beginning of September, thus provided for an increase in spending of only 4.2 percent, equivalent to no change in real terms, and a 25 percent drop in the deficit.

On inflation, which has remained moderate (although not necessarily by German standards), one panelist noted that there had not been the sharp surge in prices that had originally been feared. One of the reasons was that, although the D-mark had depreciated markedly against the dollar, the dollar is merely "first among equals in Germany's trade pattern." Of Germany's foreign trade, only about 6 percent is with the United States as against over 60 percent with Western Europe. And while the D-mark had depreciated by 20.5 percent against the dollar between the end of 1979 and last Summer, its weighted rate against the currencies of Germany's 23 most important trading partners was down only 1.5 percent over the same period. What inflationary pressures did arise because of higher import prices are expected to recede in 1982, and an average annual inflation rate of around 4 percent is foreseen through 1986.

With German exports of goods and services accounting for about one-third of economic activity, considerable attention was given by the panel to the trade situation. "We seem to be watching an old-fashioned export-led recovery," was one comment. Indeed, in its September report the Bundesbank noted that German exporters apparently had refrained from exploiting fully the margin created by the depreciating mark, since export prices quoted in D-mark rose by no more than those charged in domestic markets. In conjunction with an improving trade position and a declining current-account deficit through July, the Bank therefore sees the external adjustment as having made greater strides than expected at the beginning of the year. Indeed, as one panelist observed: "The mark's decline may have sown the seeds for trade improvement and economic recovery in the second half."

Finally, while several panelists allude to the possible political consequences of the weak economy, budgetary stringency, and a weak currency, one repondent feels that "Germany will not have wide enough swings in the ruling party or coalition sufficient to disrupt basic economic policies over the next several years."

One of **Italy's** leading banks commented earlier this year: "The years ahead—which are crucial for the Italian economy—are not going to be fat ones. The stagflation scenario—with its unavoidable social repercussions and the payments disequilibrium—can only be cured through the implementation of a well-conceived post-oil industrial reorientation effort, which is only now beginning to get under way—long after the first 1973 warning bells."

Indeed, while Italy had been able to achieve in both 1979 and 1980 the fastest growth of any member of the European Community—5 and 3.8 percent, respectively—official Italian forecasts now assume that the average annual growth rate over the coming three to four years will be no more than between 2 and 3 percent. The adoption of more restrictive monetary measures this year in March and May, in order to stem and perhaps reverse the deterioration in the balance of payments, is expected to result in a sharp decline in business investment.

This scenario is not being helped by continuing political instability—the 41st postwar government, headed by Giovanni Spadolini of the small Republican party, came into office in the Spring. The new government's economic platform does not diverge much from that of the previous government in its emphasis on stepping up the fight on inflation and pursuing more energetically the objectives of the three-year plan submitted earlier in the year by the outgoing Forlani government. However, the new platform is somewhat more specific on how the public-sector deficit is to be kept down and, more important, on a new social pact with the unions and management in order to deal with wage-induced inflation.

Specifically, the government has suggested replacement of the system of wage indexation, the famous *scala mobile*, under which the average wage earner is now compensated for 70 percent of the rise in prices. The government has proposed basing wage adjustments instead on a "target" set for the annual increase in the cost-of-living index. If by year-end the CPI increase was above target, the government would bear part of the cost, but companies would also be wary of raising their prices too sharply.

The rather discouraging outlook for the Italian economy was fully shared by the survey respondents. Economic conditions were variously characterized as "stagnating"; inflation "continues to plague Italy"; prospects for investment expenditures over the next two years "are not good"; and the weak condition of the balance of payments "will remain a constraint on growth for the foreseeable future." Others used considerably stronger language: "Italy's economy continues in a mess and the government must change or reduce its indexation system, reduce public debt, and control the money supply. The short-term outlook is poor."

Under these circumstances and with the political scene likely to remain volatile, another panelist noted that it is "difficult to predict the economic outlook." Most panelists agreed, moreover, that any economic recovery to speak of would not set in "until early next year," when the country's economy, in the words of another, "should be back on its longer-term growth path."

The major contribution to inflation in Italy at this point is seen as coming, as it has in the past, from continued record wage adjustments. (As one panelist noted: "Until the *scala mobile* is either eliminated or significantly modified, the prospects for a substantial reduction in inflation will remain suppressed.") As mentioned, barely 24 hours before the country's national wage-indexation agreement was due to expire on June 30, the new government convened a meeting aimed at lessening the impact of that device. In addition to the proposal already cited—which would encourage employers to keep price increases to a minimum—another suggestion was to eliminate imported raw-material and energy costs from the index used for computing the *scala mobile*. This would help protect Italy's domestic cost pattern from price increases originating abroad, a step especially desirable as the lira has continued to depreciate (see box).

All in all, the panel saw little prospect for an economic and political climate conducive to business. One respondent felt that the new government "does not seem strong enough to rejuvenate the Italian economy, while attacking the current 20 percent inflation rate and reducing the high level of unemployment." Another found it "difficult to foresee a political-economic environment in Italy that is supportive toward business." Especially since the government is a minority-led coalition, "compromise will continue to be prevalent in determining economic policy, thus weakening and diffusing the effectiveness of anti-inflationary measures."

The panel also felt that a mere tight-monetary policy was not the proper long-term cure for the kind of inflation now embedded in the Italian (and other industrial) economies. The major hope is seen instead in the medium-term program for 1981-1983, presented to parliament last April. The program's main emphasis is on sharply increased government investment in some 20 sectors selected on the basis of various criteria, such as the easing of external constraints (energy, agriculture, tourism); the restructuring of sectors in serious difficulties (chemicals, steel, shipbuilding); and improving social infrastructures (housing, health and transportation). This is, admittedly, a rather heterogeneous package whose impact cannot be easily foreseen at this time.

The Lira and the Dollar

Italy has been the country hardest hit by the strengthening of the dollar. Not only has the dollar appreciated more against the lira than against any other major currency (see Chart 3), but the structure of Italy's foreign trade makes this particularly burdensome. While traditional Italian exports—such as textiles, clothing and shoes—go primarily to European countries, most of its basic imports—oil and other raw materials—are priced in dollars.

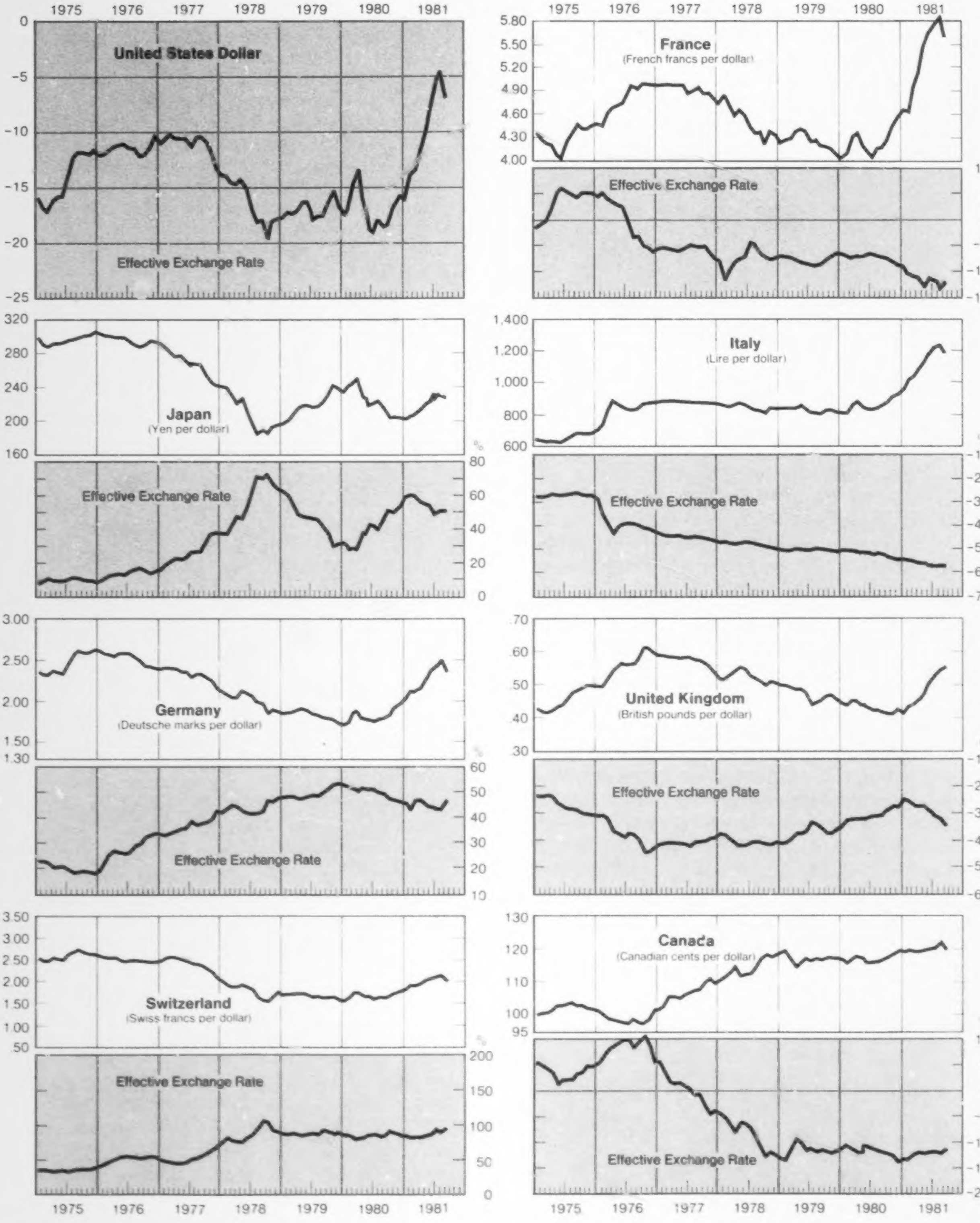
In 1980, when the lira ranged between 820 and 930 per dollar, about 40 percent of total Italian imports of $85 billion had to be paid for in dollars. The oil import bill alone came to over $17 billion, equivalent to nearly the entire trade deficit.

It has been estimated that, with an identical volume of imports and unchanged import prices, every additional 100 lire decline against the dollar raises the domestic price level by 1 percent. The *scala mobile*, in its present form, boosts that increase by a further ½ percent. By late July, the lira had dropped to 1,225 per dollar. While it eased back to around 1,170 at the end of September, most forecasts see a further depreciation over the next few years.

Regarding the **United Kingdom,** the Midland Bank noted last Summer: "If the Chancellor of the Exchequer and his colleagues feel like a break, they could well spend it orienteering. This relatively new sport in Britain, which has a growing number of enthusiasts, requires competitors to navigate unknown territory via a series of checkpoints. Success depends upon a quick and accurate assessment of where one is standing and a correct choice of the route ahead from the alternatives available." The Chancellor apparently felt sure of where he was at when, on July 30, he announced to a disbelieving House of Commons: "We are now at the end of the recession."

Chart 3

FOREIGN EXCHANGE RATES



Effective Exchange Rate for each country indicates changes vis-a-vis a group of 15 major currencies, weighted according to the average bilateral manufactures trade of 1976. Changes are in percent from pre-June 1970 parities, based on monthly average of daily rates.

Source: Morgan Guaranty Trust

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While that statement obviously was politically motivated—the government of Margaret Thatcher was facing a growing challenge from reflationist ministers—the numbers then available could be interpreted as supporting such a claim. Compared with the second half of 1980, when output had declined at an annual rate of almost 7 percent, the first six months of 1981 had seen a general leveling in economic activity. This was, of course, a mere "bottoming out," rather than a true recovery, but in most quarters the data were interpreted as heralding a distinct turning point in the country's economic fortunes.

At the same time, however, a private British forecasting group, using the Treasury's own forecasting model but making its own assumptions about a number of exogenous variables, came out with a much glummer scenario (see tabulation below). Although the decline in activity was going to halt this year, the ensuing recovery was to be extremely feeble—with perhaps a 1.5 percent rise in gross national product in 1982. Moreover, as *The Economist* paraphrased it, "inflation remains in double figures until the next election. The narrow definition of registered unemployment is only held below the 3 million mark by the flight of discouraged workers out of the labor force. And the golden age of tax cuts financed by North Sea oil never really arrives."

Medium-term Outlook for the United Kingdom (in percent)

	1982	*1983*	*1984*	*1985*
Economic growth	1.5	0.7	0.5	0.5
Retail prices	12.1	11.0	10.0	9.2
Unemployment	11.5	11.5	11.5	11.7

The panel knew that most recent private forecasts for the United Kingdom had been somewhat more pessimistic than official pronouncements, but felt that much of that pessimism concerned "the strength of the recovery rather than its timing." Evidence that the economic slide had ended was "now plentiful." Most respondents saw slow recovery of perhaps as little as ½ percent, in 1982—some as late as the third quarter—with one commenting that "1983 and 1984 will hopefully grow a bit more."

One panelist wrote: "On the surface it is easy to argue that the two-year-old Thatcher experiment failed. The recession has been much more severe and more prolonged than most had predicted. Unemployment stands at its highest since the depression-plagued 1930's. Yet inflation, though significantly reduced, clings on at a surprisingly high 11 percent. Yet it is the facile search for scapegoats which is more apparent, as though inefficiencies encrusted during more than half a century could be flushed away in two years."

Most panelists assumed some further progress on the inflation front, with the average annual rate, according to one view, coming down to 10.5 percent over the next few years. However, with the recent sharp fall of sterling against the dollar, prospects for inflation rates have clearly deteriorated again since The Conference Board's survey was mailed in July. It was, in fact, the strength of the exchange rate in 1980 that had been a major factor in containing inflationary pressures, both by reducing import costs and limiting the extent to which cost increases could be passed on. In the twelve months ending last January, for example, raw material and fuel costs of manufacturing industry rose by only 8 percent. However, since its peak in January, sterling had fallen by about 25 percent against the dollar by late September. This put renewed upward pressure on the sterling cost of dollar-priced commodities.

What has caused this pronounced reversal in the fortunes of the pound? There were three factors supporting sterling at the beginning of 1981. One was what has been called the "Thatcher factor," that is, belief that the government would not falter in its determination to battle inflation. The second was the pound's status as a "petrocurrency"; and the third was the level of British interest rates, which then were among the highest.

The "Thatcher factor" was seriously weakened in February, when the government, which had proposed to close 23 coal mines, capitulated to the threat of a national strike by the coal miners. At the same time, the drop in world demand for oil drove down prices and reduced the attraction of sterling on that score. Finally, the interest-rate structure in a number of countries (not only in the United States) has moved to the disadvantage of British rates. On top of all this, the riots in major British cities last Summer served to damage the country's image of stability and put in doubt the government's ability to cut public expenditures further.

One sector on which the panel was cautiously optimistic was exports, thus bearing out the findings of a survey carried out last Summer by the Confederation of British Industry. According to that survey, 12 percent more firms were optimistic than pessimistic about export prospects over the ensuing twelve months, the highest such margin for over three years. Exports have, of course, been helped by the recent fall in sterling. The biggest fall has been against the dollar; just as in the case of the D-mark, however, the overall drop in the effective exchange rate against the United Kingdom's major trading partners—and hence the gain in British competitiveness—has been more modest.

Moreover, the sharp deterioration in competitiveness in 1970-1980, when the pound was strong, is likely to hurt British exports for the next few years. At the same time, imports are predicted to grow even more strongly, particularly in the short term, since they had been abnormally low during the winter of 1980-1981, when companies ran down inventories drastically. Thus, even with the help of rising oil exports, the balance of payments on current account is expected to go into deficit next year and to stay negative for some time.

Thus, the support which sterling has had over much of the present government's first two years in office from the large current-account surplus, and the prop which it thereby provided for the government's policy stance, will be diminishing. Some expected buoyancy in the domestic economy and in the world at large in 1982 will pose a threat to the decline in inflation, which is expected to be hovering around 9 to 10 percent by the time the next election rolls around—much the same as it was at the last one. Meanwhile, economic activity may not have recovered the level it was at then, while unemployment will be much higher.

APPENDIX

Selected Projections of GNP and Price Changes, 1982, for Smaller Industrial and Major Developing Countries (annual rates, in percent)

	Real GNP	*Consumer Prices*
Australia	3.5	10.0
	4.0	13.0
	4.3	8.8
Belgium	2.0	5.5
	2.0	7.0
	2.5	6.5
Denmark	1.7	8.2
Netherlands	1.9	5.8
	2.0	5.5
	2.5	5.5
South Africa	3.0	11.3
	4.5	14.0
Spain	2.5	13.0
	2.5	20.0
	3.5	12.5
Sweden	3.0	10.0
Switzerland	1.8	3.6
Argentina	2.0	120.0
	3.0	130.0
Brazil	4.5	100.0
	4.6	95.0
	5.0	70.0
Colombia	4.5	25.0
	5.5	27.0
Hong Kong	7.5	8.0
	10.0	13.0
Korea	5.0	20.0
	5.5	21.2
	6.0	22.0
Mexico	6.0	26.5
	6.8	24.0
	7.8	27.0
Singapore	9.0	7.0
Taiwan	7.5	13.0
	8.5	13.0
Venezuela	3.0	14.0
	3.0	22.0
	4.0	15.0

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~~not recommended~~

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Improving Productivity in Less-Developed Countries

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Business/Government Research Program

The Conference Board

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About This Report

During the Summer of 1981, The Conference Board brought together executives from a cross section of American-based multinational companies in a forum to discuss the ways in which these firms attempt to boost productivity among workers in less-developed countries. The executives included specialists in manufacturing, personnel, organization and the general management of international operations. The firms represented included:

Johnson & Johnson
International Telephone & Telegraph Corporation
Castle & Cook, Inc.
General Foods Corporation
The Proctor & Gamble Company
The Firestone Tire & Rubber Co.
Champion International Corporation
Gulf & Western Ind., Inc.
Georgia-Pacific Corporation
International Business Machines Corporation
The Sherwin-Williams Company
The Goodyear Tire & Rubber Company
Blue Bell, Inc.
Schering-Plough International

The meeting was organized by the late Walter A. Hamilton, Vice President, Public Affairs Research of The Conference Board, and Frederick O. Pinkham, President, Omni Group, Inc. The meeting was sponsored by the Population Crisis Committee of the Draper Fund. This report is based on the commentary of the forum participants, plus additional statistical data available from Conference Board data resources.

Introduction

U.S. business has a growing stake in the economic vitality of less-developed nations. According to Department of Commerce data, more than a third of all U.S. exports now go to these countries, and U.S. exports of capital goods to the LDC's have increased from $5 billion in 1970 to $20 billion in 1978. In addition, U.S. investors are vitally concerned with the health of the LDC economies. At present, one-fourth of all U.S. overseas direct investments are in less-developed countries.

A variety of studies have documented the beneficial effect that multinational corporations in general, and American firms, in particular, have played in founding new industries, transmitting technological and managerial skills, and helping create new social relationships.[1]

In addition, it is also in the national interest for American-based MNC's to promote the stability of LDC's through economic and social development. Many of these nations, as former chairman of the Joint Chiefs of Staff Maxwell Taylor, U.S. Army (ret.), has testified to the Congress, are of vital importance to our national security (in hearings before the Select Committee on Population, Ninety-fifth Congress, *Overview of Trends, Consequences, Perspectives, and Issues,* April 19, 1978, Vol. I, pages 112-113). Countries such as Somalia and the Philippines, among others, occupy key geographic locations, providing vital bases for U.S. military forces. Others, such as a number of the African states, are the sources of critically needed metals and minerals.

American banks and manufacturing firms are often among the most prominent investors in LDC's and, in order to assure the integrity of those investments, American MNC's are naturally interested in promoting the stability of LDC economies and societies.

Of course, the multinational corporation is itself a source of controversy. Some observers see it as a positive force within Third World countries while its critics charge it with exploiting the people and natural resources of these nations. The supporters of multinational corporations claim that these business entities are often more economically efficient and socially sensitive than the host governments of nations within which they operate. The advocates hold that the MNC's have more efficient management, greater energy, and a global outlook which, they claim, better represents a peoples' world economic interest.[2] There is little doubt that as the social and political structures of LDC's have changed, the roles and demands placed on multinational firms have altered significantly. Companies are expected to play a greater role in assuring the health and welfare of their workers, as well as in filling their primary role by providing employment.[3]

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[1] See, for example, Absolom L. Vilakazi, "Non-Governmental Agencies and Their Role in the Development of Africa: A Case Study." *African Studies Review,* #13, 1970; and Neal J. Jacoby, "The Multinational Corporation." *The Center Magazine,* May-June, 1970.

These new roles have also made multinationals increasingly vulnerable to charges that they are shirking their corporate responsibilities.[4] To rebut such charges companies point to the effects that their employment has produced on local economies and the assistance they have given to developing the infrastructures of these economies, as well as improving the health and nutrition of workers and their dependents. In the final analysis, however, most observers agree that significant gains in the standard of living within LDC's will only be accomplished by commensurate gains in worker productivity within these nations. And, as the forum participants point out, productivity is the product of a complex equation involving cultural, attitudinal, social and physical factors. Common to all of these factors is the need to reinforce and improve the social and economic infrastructures of LDC's.

The U.S. View

The firms represented in the forum are U.S.-based multinationals. Most have literally dozens of operations, ranging from manufacturing to product distribution, in less-developed countries. They point out that the way American firms operate within these nations may differ somewhat from the philosophies and modes of operation of their European and Asian counterparts. For example, several forum members point out that American multinationals are sometimes perceived by the host governments as firms that tend to send in their own managers to run various operations, but then keep these managers in the countries for relatively short periods. The overseas assignments are seen, these host-government officials believe, as training for, or stepping stones to, higher positions within the multinational firm. By contrast, they assert, European and Asian multinationals tend to keep their people in place for much longer periods of time. Thus, the American companies are not thought of as having as much continuity in management as their competitors.

But the forum executives point out that it is the goal of many of their companies to train, and turn over management responsibilities to, local nationals as quickly as possible. They say that if American firms allowed their American managers to stay on in top-management positions for decades, there would be relatively little in the way of top-level promotional opportunities for LDC nationals employed by these firms.

The American managers also say that most U.S. companies are relatively visible, they do not make as determined an effort to blend into the local culture. In the long run, some observers believe, this may be a better tactic, since host-country politicians can see through companies' attempts to deny their presence or power within the LDC's. Instead, the executives point out that it is better to remain visible and to demonstrate and document the contributions that the firms are making to the nation's economy and social development.[5]

But at least some American firms apparently do not follow this same practice when operating in more developed economies. Conference Board researchers recently studied American multinational firms operating in Italy and were struck by the fact that many of the American executives were completely unaware that another major U.S. chemical company was also active in Italy. The latter firm had six subsidiaries functioning there, but apparently had integrated these subsidiaries so well into the Italian business community that they were not even regarded as American-owned companies—even by American executives of other companies operating nearby.

Transferring Productivity Concepts

A number of the forum participants report that they have experienced some difficulty in attempting to transfer productivity concepts developed in the United States to LDC's wholly and intact. For one thing, they point out, workers in plants located in LDC's may have significantly different attitudes about their social status and about work itself. Several of the companies report that an awareness of these differences has prompted them to conduct regular surveys in an attempt to develop yardsticks for employee attitudes about work and their particular jobs. Two firms report that they conduct annual surveys in several countries, using detailed questionnaires, in order to determine workers' views about the kinds of equipment that they have available to do their jobs, whether local working conditions are satisfactory, and the employees' evaluation of the pay and benefits the companies provide.

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[2] Axel Madsen, *Private Power: Multinational Corporations for the Survival of our Planet.* New York: William Morrow & Company, 1980.

[3] John Humble, *The Responsible Multinational Enterprise.* London: Foundation for Business Responsibilities, 1975.

[4] Orville L. Freeman, and William Persen, "Multinational Corporations: Hope for the Poorest Nations." *The Futurist,* December, 1980.

[5] John Kenneth Galbraith, "The Defense of the Multinational Company." *Harvard Business Review,* March-April, 1978, and Vita Torres, "The Transparent Company." *Management Today,* July, 1977.

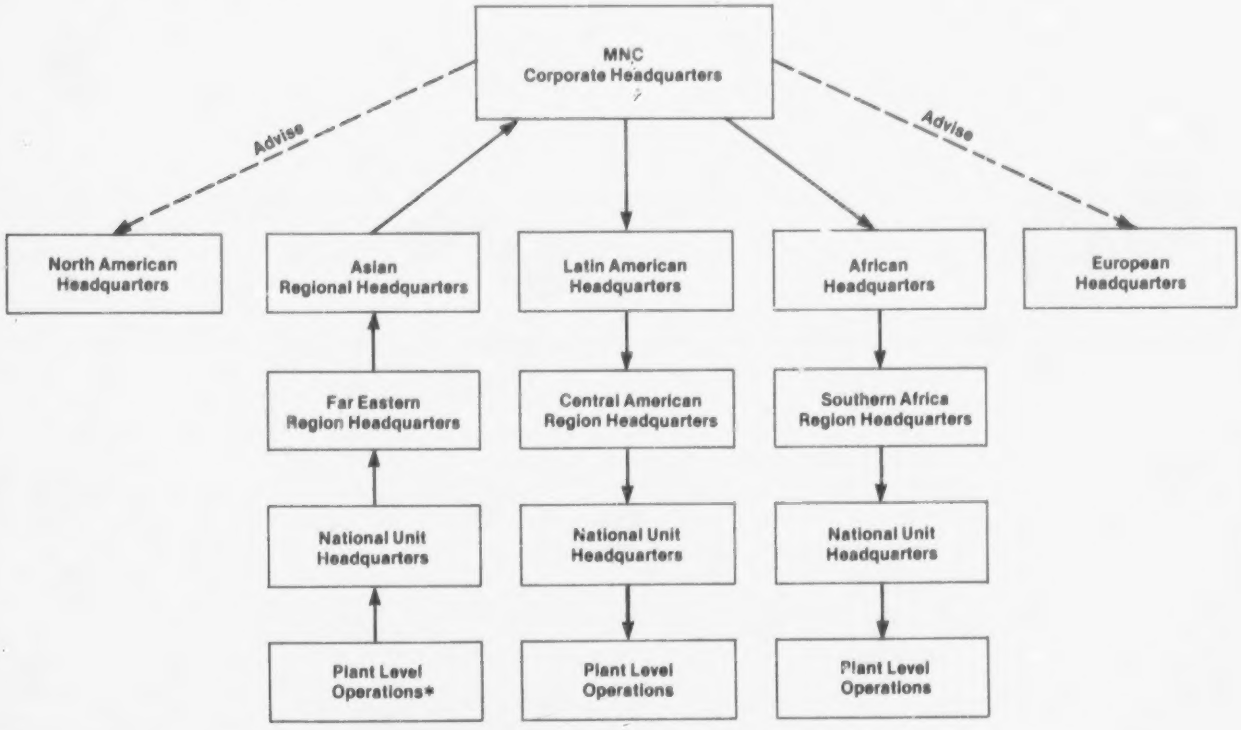
In a few cases, the transfer of productivity techniques is complicated by the attitudes of local national managers. One executive says: "There is a natural human propensity, when these managers look at some of our proposals, to say 'that is interesting, but it won't work in our situation because we are different.' But a lot of good things in the world have been rejected by people because they felt certain that their own situations were unique. In fact, many of these situations were not unique and there were certain common elements that suggested that the ideas could have been applied in their situation. Part of the problem, we find, is helping people to understand the things they have in common."

Recognizing that attitudinal obstacles may prevent implementation of some productivity concepts, companies report that they try to develop an overall philosophy of operation and then allow local customs and practices to fit into that philosophy. For example, one manager reports that, in Japan, "a very modern nation by any standards, we have X-ray machines in all our plants and office headquarters. This is because nearly every Japanese worker wants to have an X-ray every six months. I know it sounds ridiculous, but it develops from the high rate of tuberculosis that Japan used to have. Now there is practically no tuberculosis, but we still provide the X-rays. We can't really say that by providing the X-ray service we do any better work, or our workers are more productive. It's just a matter of perception of values."

Organizing the Productivity Effort

According to the forum participants, a major part of the impetus and direction for productivity improvements comes not from corporate headquarters but from the managements of operating facilities in the LDC's themselves. A few of the firms have a formalized organizational structure for productivity improvement, consisting of "productivity improvement teams" that are located at various levels of the company, beginning at the operating level in LDC's. Ideas for changes in company policy and practice, the acquisition of new equipment, and so on, flow up from these local productivity teams to regional headquarters, and then to corporate headquarters. Ideas that have international application then flow back from corporate headquarters to all plant levels where they may be applicable. (See Exhibit 1.)

Exhibit 1: Idea Flow Chart


MNC
Corporate Headquarters
Advise
Advise
North American Headquarters
Asian Regional Headquarters
Latin American Headquarters
African Headquarters
European Headquarters
Far Eastern Region Headquarters
Central American Region Headquarters
Southern Africa Region Headquarters
National Unit Headquarters
National Unit Headquarters
National Unit Headquarters
Plant Level Operations*
Plant Level Operations
Plant Level Operations

* Idea origination

Ideas for productivity innovations may begin at a plant level in an LDC, flow up through regional units to corporate headquarters for analysis and evaluation. Then, if the idea shows promise, it will be sent back down to regional and local offices and plants in other LDC areas.

In general, the forum executives say, once traditional routes to productivity improvement—such as intensified capital investment and greater automation—have been exhausted, managements must then turn their attention to the characteristics of the local work forces, because they impose the most significant limits on the extent to which productivity can be boosted. As a result, the managers indicate, their companies are focusing their attention on the following elements:

(1) Employee and dependent nutrition and health
(2) Family planning and population control
(3) Literacy and educational infrastructures
(4) Job training and managerial succession
(5) Local government infrastructures.

Nutrition and Health

Increasingly, companies have concluded that the health status of employees in less-developed countries may be a primary limiting factor in productivity. The executives point out that poorly nourished, chronically ill work forces are just not going to be able to take advantage of productivity innovations companies may introduce. The World Bank recently concluded that only an increased emphasis on health and nutrition—as well as population control—would make it possible for LDC's to boost their gross national product.[6]

The forum participants are acutely aware of the relationship between work-force health and the company's responsibilities to participate in health-improvement programs. One manager states: "If you are going to go into a country and you are hiring low-skilled people who need better nutrition, you give them that nutrition. If there are no hospitals there, you are going to have to provide hospitals. That isn't the way we do business in the United States but, if you go to another country and you want to do business there, you have to provide the means to operate, whether it is training people in the necessary skills or providing a healthy environment so that you have reliable workers."

Other executives point out that when it comes to nutrition and health programs, the company cannot limit its attention solely to the worker and ignore his or her family. As one manufacturing specialist notes: "There is no point in having a well-fed employee who is going home to a starving family." And there is no doubt that that is exactly what is happening in some cases. Last year, for example, UNICEF estimated that 11 million children died during their first year of life due to malnutrition-related diseases.[7]

Another executive points out that poor nutrition has long-term impacts on the company's ability to recruit and maintain middle-management workers. This executive says: "You need a pretty sound, healthy work force before you can hope to develop those managers or supervisors who are going to be with you for five, ten or twenty-year periods."

As far as nutrition is concerned, company practices tend to focus on three basic elements. These are:

(1) Company-supplied meals for workers
(2) Nutritional education programs
(3) Cooperative food-supply programs.

The origin and evolution of the company meal programs varied widely among the forum participants' companies. One firm's representative, for example, says that his company, in introducing operations in Central America, simply followed the "company store" approach already practiced by local plantation owners, but then expanded on the practice to provide more nutritionally balanced meals. In another company, the firm's U.S. president had been directly involved in a three-part nutrition, stress management, and physical exercise program for U.S. employees. The company extracted the nutrition portion of this program and transplanted it to South Africa with some success.

In another case, a company president was making a tour of the firm's Southeast Asia facilities some years back and asked local managers where the people ate. The firm's representative says: "There were literally thousands of these little shanties and shacks that were serving as makeshift restaurants and bars; and when the president saw that, he suggested that we provide one free 3,000 calorie meal at our cafeteria each day for our employees. That program has been going on for more than a decade. Apparently it does work. I do know that when we send new managers out here, our own people, they seem to put on 10 or 15 pounds during the first few months eating in the cafeteria."

One of the consumer products firms represented at the forum reports that its South African plants provide free breakfasts. The company found that most of its employees did not eat a morning meal before coming to work and were often fatigued by midmorning. The company decided to keep its cafeteria open in the morning, to provide a free breakfast, and found that it not only helped reduce worker fatigue, but significantly improved attendance records. Several other firms report also that they provide complimentary breakfasts for their employees, and encourage the employees to eat at work by paying them a wage during the breakfast period.

Sometimes, however, the traditions of local workers can get into the way of a free breakfast program. For example, one executive, despairing of his experience in several South American plants, says: "The Latins don't eat a damn thing in the morning except black coffee—

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[6] The World Bank, *World Development Report*. Washington, D.C.: The World Bank, August, 1980.

[7] Stephen Solomon, "The Controversy over Infant Formula." *The New York Times Magazine*, December 6, 1981, p. 106.

the general population in these cities. In this instance, a company representative says: "It simply is becoming a traditional way of doing business. It is not even recognized as an employee benefit by many of the workers, but largely taken for granted."

A consumer products firm operates two full-size hospitals in Liberia, with the entire resident staff of these hospitals—units operating with multimillion dollar budgets—being on the payroll of the company. Another firm reports that it has had an active program for training physicians and nurses in the Amazon region of Brazil for several years, and operates a hospital ship that goes up and down the Amazon serving local villages.

A firm in Zaire found that the existing medical facilities were "thin and not very friendly" and decided to establish its own health system, providing out-patient services to both employees and dependents. As a result, this company's representative says, there has been a notable boost in worker attendance, because: "In the past when someone in the family was sick, the workers of that family often stayed home in order to care for the sick member."

One of the forum executives described his own experience in managing a food plant in the Philippines several decades ago. He reports: "In my early years out there, it became apparent that employees were using our steam racks to cook their daily meals. We could see them boiling rice in little food cans on the racks, and this was their main food source. At that time, the population had a very high incidence of tuberculosis. A company program was started with the aim of eradicating tuberculosis among our employees and their dependents. It included providing specialized medicines to the employees and their families, giving them up to six months time off with a guarantee of a job when they returned, and nutritional education. Over the years tuberculosis was virtually eliminated in the areas where our plants were located."

The health-care facilities, besides treating incidents of disease, are also used to conduct the companies' annual physical exam programs. Most of the firms represented at the forum now require a pre-employment physical in LDC's. In addition, they offer annual medical checkups for most employees. The theory, several company representatives report, is that it is especially important in developing countries to detect medical problems early, since these are seen as areas with a more "fragile medical environment." Even when the firms do not have facilities to treat the detected illnesses, they do make recommendations for treatment at other facilities in the country or nearby areas.

Physical screening can also be motivated by the legal climate in some LDC's. Companies have become wary of claims made by workers for "job-caused illnesses" that the employee may have had prior to employment. One executive, relating his experience in a South American country, says: "The only health director I ever fired was dismissed because the physician missed important data on a new hire that should have indicated that the employee had a medical problem. Three months after we hired this person, I ended up with a $1 million law suit because of alleged maltreatment. This suit arose largely because we failed to screen out the individual before employment."

Operating the company's own health facilities can create personnel problems, some of the executives admit. For example, one says: "A conflict sometimes arises between a company doctor's interpretation of an employee's health and the employee's own ideas. For example, a worker may check into a hospital in the morning with certain symptoms that he believes deserve several days off. The company doctor may give him two aspirins and send him home to bed, indicating that he should report to work the following day. But the employee may regard the doctor, because he is a salaried employee of the firm, as a biased observer of his medical condition." And, the manager reports, the local plant manager has to step in and act as an arbitrator between the employee and the company physician.

One of the executives in the forum also reports that in addition to medical personnel, his company provides trained social counseling to help employees resolve family conflicts. Describing how this program works, the executive says: "We found that the bad attendance record of an employee can sometimes be traced back to something that is happening within the family, a condition that might be resolved by the intervention of a skilled social worker. So we developed a program in half a dozen or so countries that provides such assistance. Mostly, it's done on a local initiative basis. The general manager in the country must be convinced that social workers can make a difference in helping resolve family differences in that area."

The Corporate Role in Family Planning Efforts in LDC's

International demographers now project that more than 90 percent of the total increase in the work force during the next two decades will occur in the less-developed nations in the world. Already, in nations such as Mexico, Pakistan and Nigeria, people under 15 years of age constitute 50 percent of the population.[1]

The managers of American multinationals are well aware of these statistics. They recognize, as most host governments do, that unless population growth can be checked, productivity improvements alone will never be able to increase the standard of living in LDC's. Even so, only a few corporate spokesmen come straight out and suggest that companies in overpopulated, underdeveloped nations should actively assist in family-planning efforts for their employees and their spouses.[9] Spokesmen for American firms are somewhat circumspect on this subject, perhaps reflecting current divisions in U.S. social and political thought on abortion, birth control, and related subjects. But the realities are that the birth rates of the nations in which they operate have a dramatic impact on companies.

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[1] Sheldon Segal, and Parker W. Mauldin, "To Help the 1.3 Billion." *The New York Times*, February 23, 1981.

In one Latin American country, for example, a U.S. firm found itself saddled with a government-mandated program that provided differential wage rates for each child that was born to an employee. For example, after the first birth, employees received an automatic pay increment, a second child produced an additional pay raise plus a 10 percent bonus, and so forth. A company executive, examining this system, says: "If you have 15 children, you are going to be very rich, you could end up making a lot more money than the plant manager. We don't think we should be encouraging this kind of thing. The high birth rate is already a problem in this country, and I don't think we should be subsidizing that birth rate."

The forum participants point out that the managers of multinational companies already have available, through the United Nations and other sources, technical data on the kinds and diversity of population projects in underdeveloped countries, and can consult these resources in determining how their companies' activities might be affected by population planning.[10] Using such resources, most often in cooperative programs with host governments, companies have assisted employees in family-planning programs.

In the Philippines, for example, there are numerous family-planning activities involving U.S. multinational firms. Some plants have family-planning committees that are set up by the government but welcomed by local plant managers. In some of these operations contraceptives are distributed within the plants. In many other cases, particularly in rural districts, educational efforts are made to help acquaint workers with the basics of human conception. However, even with vigorous Philippine government support for such programs, some of the executives questioned are reticent about their firms' involvements in these programs. One says: "The government plan has been supported by our operations in the Philippines, but we'd much prefer not to touch this area of our workers' personal lives."

In India, several hundred local and multinational firms have cooperated with the government in distributing family-planning advice and retaining nurses to counsel workers on this subject. One of the forum executives points out that several studies done in India have shown that this kind of involvement on the part of companies has not only reduced the birth rate among their employees, but also seems to have had an effect on the overall accident rate for their work forces. The executive theorizes: "When a man has eight or nine children at home, and sees a tenth one on the way, it tends to affect his performance and often, for whatever reasons, he seems to be more likely to have a job accident."

And since companies provide health-care benefits to their employees, including maternity benefits, they have an obvious financial stake in the number of children their employees choose to have. In one garment manufacturing plant in Sri Lanka, for example, the management found itself with a work force of more than a thousand women, the vast majority within the child-bearing ages of 18 to 45 years of age. Local law provided that, for each child born, the worker was entitled to 40 days of paid leave at the time of birth. With large families this created a significant economic cost for the company. A firm executive reports that many of the women workers had as many as eight or nine children.

The local labor law provided that workers were to receive two 15-minute breaks each day. The company decided to retain nurses specializing in birth-control counseling and to make them available to the work force during the morning and afternoon breaks. This approach, the firm reports, not only reduced the birth rate of the work force, but also lowered the company's absenteeism rate since the women could also obtain advice about other medical problems.

Overall, the feeling of the forum participants is that companies should actively cooperate with host governments in family-planning projects since there is such an obvious link between population control and economic well-being. But they are ambivalent about firms initiating such projects on their own, preferring political representatives to take the lead in such efforts.

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[9] Barnett F. Baron, *Population, Development and Multinational Corporations.* New York: The Population Council, International Programs Working Paper #9, January, 1980.

[10] United Nations Fund for Population Activities, *Inventory of Population Projects in Developing Countries Around the World 1978-1979.* New York: United Nations Fund for Population Activities, 1979.

Literacy and Educational Infrastructures

American multinationals operate in countries in which anywhere from 50 to 95 percent of the population may be officially categorized as illiterate. (See Table 1.) And nearly all sophisticated productivity improvement programs are built on the assumption that you have a literate, intelligent work force to deal with. But most often, the local educational infrastructure—the elementary and high schools of the less-developed nation—is inadequate to the task of providing an educated work force. As a result, some companies have found themselves in the education business, either as sponsors of local schools or as the operators of the school system. In South Africa, one manager explained, two major U.S. firms joined to start a technical high school in one local community. This is a completely private venture and has nothing to do with the government's educational system. But that type of venture is not unusual for multinational firms.

Companies sometimes find that they have to develop and staff trade schools in order to assure availability of the craftsmen needed for sophisticated manufacturing operations. Such efforts require the preparation of detailed training manuals, translated into local languages, accompanied by appropriate visual aids, TV presentations, and so forth. One manufacturer's representative, explains the system in its LDC-located plants: "We'll start trainees out with a basic DC motor and get them to understand this model. Then, when they have accomplished that, we'll go into AC motor systems. And when the student has mastered electric motors, we'll proceed to hydraulic systems. Then we begin to put all these elements together into a total machine system, combining various components that the students have learned about. Some of these students then go into an apprentice training program. At the present time, we are putting about 40 students at a time through our centers and turning out a significant number of craftsmen."

Another company reports that in its cement plant in Mexico, it has established a series of "skill blocks" covering all aspects of a particular job. The students are rotated through these various blocks of instructions. Local managers are used as instructors, and there is a substantial amount of audiovisual and self-training materials available for mechanics and machinists who are trained in the program. Local university graduates, brought in to become middle-line managers, are also offered this kind of training. But the company says that some "resist such exposure, feeling that such work is beneath them."

Companies that establish their own schools or technical institute programs can also find that they have helped reinforce a caste system within the local culture. In one case, the company spent up to a year training employees for a new plant that was to open. When the

Table 1: Illiteracy and Education

ILLITERATE POPULATION 15 YEARS OLD AND OVER, BY REGION: 1970 AND PROJECTIONS TO 1980 AND 1990*

	1970			*1980*			*1990 Forecast*		
	Total	*Illiterate adults*		*Total*	*Illiterate adults*		*Total*	*Illiterate adults*	
Region	*adults*	*Number*	*Percent*	*adults*	*Number*	*Percent*	*adults*	*Number*	*Percent*
World Population	1,753	569	32.5	2,165	627	28.9	2,660	683	25.7
Africa	197	139	70.6	257	156	60.6	341	168	49.1
Latin America	162	46	28.1	218	44	20.3	291	40	13.7
Northern America	162	2	1.0	190	1	.5	207	1	.5
East Asia[1]	101	3	3.4	118	3	2.4	135	2	1.8
South Asia[2]	600	358	59.6	789	402	51.0	1,048	451	43.0
Europe	345	15	4.3	375	12	3.1	398	10	2.5
Soviet Union	173	1	.5	203	1	.5	220	1	.5
Oceania	13	1	9.9	16	1	8.3	19	2	8.3

[1] Excludes People's Republic of China and Democratic People's Republic of Korea.

[2] Excludes Vietnam.

Source: United Nations Educational, Scientific, and Cultural Organization, Paris, France. *Estimates and Projections of Illiteracy,* CSR-E-29, 1978.

*In millions, except percent. Illiteracy is defined as the inability both to read and write.

plant opened, there were a number of menial jobs that had to be performed, along with the more skilled ones for which the workers had been trained. But the workers refused to perform these tasks, claiming the company should bring in "lower level" employees to perform such tasks as sweeping and cleaning the workplace.

Educational and training efforts are thus often heavily influenced by local attitudes toward work and social position. One manager says that, "in underdeveloped countries, getting people trained in simple work habits is sometimes more difficult than teaching them technical skills. For example, in Indonesia you can put a wastepaper basket right next to the desk of some workers and they still throw the papers on the floor. For some reason, in other plants, they always rip the toilet seats off. You put them on one day, and the next day they are completely gone."

Educating Students in the United States

In some instances, U.S. multinational corporations have helped sponsor programs which involve students from LDCs coming to the United States for advanced training. Often, these individuals come to American universities for training in technical and business management programs. The Algerian government, for example, sent 88 students to the United States for placement in separate college programs at Harvard, Columbia, Purdue, Case Western, and Syracuse Universities. But a later analysis of the program showed that a large percentage of these students, upon completion of their college work, decided not to return to Algeria—even though that return was a condition of their educational assistance.

Going to school in the United States is regarded as a mark of distinction in many LDC's and that fact can work to the disadvantage of American firms that are actively seeking to assist graduate schools in these nations. For example, one of the forum executives reports that while he was living in Thailand he participated as a member of that nation's educational commission. In that country, students graduating from local universities are paid less than if they obtain their degrees in American or European universities. This system also exists in some other Asian countries—a system with a built-in discriminatory impact on local educational systems.

Origin of Benefits Practices

The various benefits practices that companies follow, including those that allegedly aid productivity, usually did not begin with U.S. companies. According to one international executive: "Basically these practices come from the English and the Germans. The French have pretty much the same benefits and principles, and these policies and practices have been exported to the less-developed nations. We find that not much in the way of benefits innovation is transferred back to the more developed countries, but it is possible to transfer innovations from one underdeveloped country to another." (Per Figure 1.)

Apparently, regional variations also influence a company's benefits posture. In many Latin American countries, the forum participants say, there is a tradition of corporate paternalism that results in the legislating of certain benefits that American-based multinationals would rather not provide. Some of these benefits are described by American managers as "whimsical" or, at least, "nontraditional" in that they have nothing to do with the employees' health or work motivation, but seem to be primarily the product of the fertile imagination of union negotiators.

At the same time, lessons learned in bargaining with U.S. unions are not always applicable, as far as the benefits are concerned, in less-developed nations. For example, the company labor contract negotiators at a soap plant in Lima found that union representatives were much more interested in increases in day-to-day medical care than they were in a company-paid life insurance policy. The chief union negotiator, asked why he was not interested in what seemed like an attractive life-insurance package, replied: "Why the hell bother us with that stuff [life insurance policies] that's of use to us only after we are dead? We want it in our pockets now."

In an attempt to get a better fix on which company benefits are most appropriate to a nation's needs, several of the forum participants report that their companies conduct regular studies of the nations within which they operate, trying to determine the rate of development and the changing needs of the population.

For example, one firm with operations in Indonesia reported that when it first located there—a decade ago—the most important benefits were food, clothing, shelter and transportation. The company provided employees with transportation loans, housing loans, and food supplements. But during the past decade, Indonesia has made significant progress as far as these infrastructures are concerned. The company no longer provides rice and clothing, among other things, but instead tries to give wage raises, which will allow the more economically sophisticated employees to make their own decisions about the kinds of clothing and food they deem necessary. At the same time, company managers do point out that, in reducing certain of these benefits and replacing them with cash payments in the form of higher wages, they do encounter problems because employees "take for granted" certain of the benefits without considering the costs that are involved in supplying them.

One manager pointed out that his firm sought to solve this problem by appointing a task force to look at the various benefits that were provided in different countries. He says: "We discovered some things that no one in the firm seemed to know about and I would suggest that very few people know about the full range of benefits their firms provide offshore employees. But ignorance of these benefits can have important operating consequences. For example, many companies have medical plans that are taxable to the employee in the country if the employee is 'saved the expense' of the benefit by reason of the employer's contribution."

In a few cases companies have also used benefits as a means of differentiating between various skill levels within their plants. In Peru, for example, the wage spread between various skill and seniority levels has been compressed as a result of government-initiated policies toward egalitarianism. One firm reports that there is only a 5 percent wage differential between floor sweepers and skilled machine operators. This firm uses an increased scale of benefits as a way of rewarding its more skilled employees.

Assisting Governments

Besides individual aid to employees, the forum executives also say that their companies are vitally interested in assisting the host governments of LDCs in improving the health, transportation and communications infrastructures of their countries, as well as aiding in the development of better civic management. They are fully aware that unless such infrastructures develop, and countries are effectively managed, their own operations in these lands will be impeded. Reports have documented the upswing in corporate involvement in community development programs.[11]

One reason for this increased attention is the fact that many host governments are taking a closer look at the overall social costs and benefits of various investment proposals by multinational firms. A development project which may be attractive to the multinational company may not always be equally appealing to the host country. Host governments are taking a closer look at the various by-product costs of the firms' operations—such as impacts on the environment, scarce resources, and so on, and weighing them against the gains produced by jobs and trade.[12]

To help get a better fix on the benefits side of the equation in making such investments, a number of other U.S. multinationals have policies that encourage employees to become involved in community aid and development programs and to work with host governments and academic centers in developing their statistical expertise. Admittedly, in some firms' cases, the use of more sophisticated statistical systems is of long-range market advantage to the companies; but one company spokesman says: "What we're really trying to do in these countries is get them to the point where they are capable of using modern data systems to effectively analyze and address social, political and economic problems. As far as the marketing investment is concerned, this is a sophisticated long-range planning effort. It does provide short-term and relatively immediate benefits to the local governments and, perhaps, long-term benefits to the total economies in which we operate."

The forum participants point out that certain countries seem in more dire need of management assistance than others. For example, one executive reported that he had recently had a long talk with the President of Bangladesh. The President reported that the major problem in his country was not an excess population growth, or even government corruption, but a critical shortage of government managers. With nearly $1 billion in foreign aid pouring in each year, the government reportedly does not have enough managers to make efficient use of these aid moneys.

A somewhat similar situation has developed in Sri Lanka. A manager, whose firm operates in this nation, notes that: "The former government was socialist. It established over a hundred separate corporations, national companies that were run by relatives or a variety of incompetents. When the new government came in and wanted to convert many of these firms back to the private sector, it did not have the managers to run them. The government went to an American business school and attempted to get together with some of the multinational companies to establish a management training center, so that they could successfully convert these socialist-established companies to free enterprise firms."

Much of the current attention, forum participants say, is being directed at transportation and communication systems. It is not unusual for companies to operate bus lines—or even, in one case, a charter airline—in order to be sure that employees can get from their villages to manufacturing plants. Naturally, the companies would like to have the host governments take on these responsibilities. But such resolve, and sufficient amount of resources, are not always available. In some instances, even the most simple change in company policy can help to partially offset a defect in the local transportation system, for example. One firm reported that it had a recruiting policy in Jamaica that advertised that if an employee had a good attendance record during the first three months on the job, the person would be given a bicycle as a performance bonus. But the company soon discovered that it made much more sense to give the bicycle bonus at the time of hiring, because the lack of a reliable local transport system made certain that employees would not get to work consistently unless they did own bicycles.

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[11] Anon. *Top Management Report on Government-Business Corporation in the Field of International Public Affairs.* International Management and Development Institute, April, 1975.

[12] Louis T. Wells, Jr. "Social Cost/Benefit Analysis for Multinational Corporations." *Harvard Business Review,* March-April, 1975.

Summary

The views and discussion of the forum participants reveal that U.S. MNC's are approaching the issue of productivity improvement in a variety of ways. Often, improvements in health and nutrition far outweigh such traditional improvement routes as automation and labor-saving techniques. It is also evident that many of the things that American firms are doing are contained within their operating budgets and are not considered philanthropic—even though such an activity, if carried out in the United States, would be classified as such. Finally, there is an evident need to catalog and describe some of the social investments that American MNC's make in order that firms may share such experiences and that the international community will have a better understanding of the nature and extent of these investments.

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Labor Outlook, 1982

by Audrey Freedman et al

The Conference Board

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THE CONFERENCE BOARD'S 1982 LABOR OUTLOOK PANEL

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CHAIRMAN

The Conference Board's annual meeting of experts in human resources took place on November 4, 1981. Panel members discussed the current economic situation, compensation trends, labor relations, and political events. This process provided the predictions for 1982. The individual views quoted were submitted in writing. Mr. Read missed the meeting but provided comments and evaluations.

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LABOR OUTLOOK, 1982

The Brakes Are On

The Conference Board's Labor Outlook Panel predicted that unemployment will continue rising through Spring, 1982. Panel members expected that unemployment will average 8 percent during 1982, suggesting that even if recovery were to begin during the second half of the year, it will have only weak reemployment effects.

The panel foresaw a notable decline in the rate of wage inflation next year. In major union settlements during the first nine months of 1981, first-year wage increases were 11.5 percent. For next year, the panel predicted that first-year wage and benefit increases will average 8.8 percent. Such an "unwinding" trend, combined with some improvement in output per man-hour, will produce a gradual reduction in labor cost inflation (see Table 1).

This moderation in wage demands was not directly attributed to job competition from the growing ranks of unemployed. Instead, sharp cost-cutting efforts by employers are being focused on labor costs: wage freezes and reductions are taking place. At the same time, the U.S. work force is noticing the competitive weaknesses of some industries. In some cases, employees may perceive their own previous wage "militancy" as part of the problem. One union president commented:

Table 1: Forecasts for 1982 by The Conference Board's Labor Outlook Panel

	Median (Percent)	Range (Percent)
Overall unemployment rate during 1982	8	7.5 to 9
Peak unemployment rate	9	8.1 to 11
(Month in which unemployment will peak)	(April)	(March - July)
Wage and benefit increases in the first year of major settlements, 1982	8.8	8.3 to 9.5
Increase in labor cost per unit of output in manufacturing	8	4 to 11
Increase in the Consumer Price Index	9	8 to 9.5

> "Once you get below the major unionized companies, there is real wage erosion. There is a mood among employees that they have to see the boss through the crisis."

Throughout the panel discussion, distinctions were made on the basis of company profitability and competitive strength. The imagery of "wage leadership," establishing a general target for union bargainers, has disappeared. It has been replaced by a new sensitivity to company performance and a new perception of the need to be competitive. Specifically, the pacesetter wage bargains in heavily unionized industries will not radiate out with the influence that they once had. Some big bargains are going to be notably moderate; some patterns of uniformity are going to shatter and disperse.

ROBERT NEYLAN
Vice President
Employee Relations
Gould Inc.
Rolling Meadows, Illinois

Explaining his prediction of widespread wage moderation and "less militancy," Mr. Neylan referred to a year of stagnation:

> "During 1982, weak economic growth will keep wages down. A soft economy will stiffen resistance to wage increase levels, if only because, with declining sales, business will be unable to recover cost increases through higher prices. Also, I would expect that the personal income-tax reduction will have a dampening effect on wage demands since it will boost real earnings. To complete the cycle, many economists are predicting moderation in pricing which, if true, will also bolster real earnings.
>
> "The key element in the bargaining area is the universal perception that business is flat and that this is not the time to press for extraordinary wage gains. Wage demands and increases will continue to decline into 1982, possibly accelerating downward as unemployment increases and we slip deeper into recession."

REX REED
Vice President
American Telephone & Telegraph Company
Basking Ridge, New Jersey

Mr. Reed said that unemployment affects wage bargaining only indirectly.

> "As the economy enters 1982, the unemployment rate is likely to continue to rise—but only slightly above 8 percent because of the relative mildness of the recession. As the economic rebound gets under way and gathers steam with the help of next year's July 1st tax cut, the unemployment rate should gradually decline and fall below 8 percent in the second half of 1982. By year-end 1982, however, it is not likely to be much improved from September, 1981's 7.5 percent rate.
>
> "A recessionary economy causing an unemployment rate of 8 percent or more may possibly lead to a softening of the inflation rate as well. These factors, in and of themselves, would tend to moderate bargaining over wages.
>
> "Lately, there has been very little relationship between supply of labor and wage demands. This suggests that the unemployment rate will not be the most significant direct factor in bargaining in 1982. Rather, the competitive state of an industry and a particular company will be of major importance."

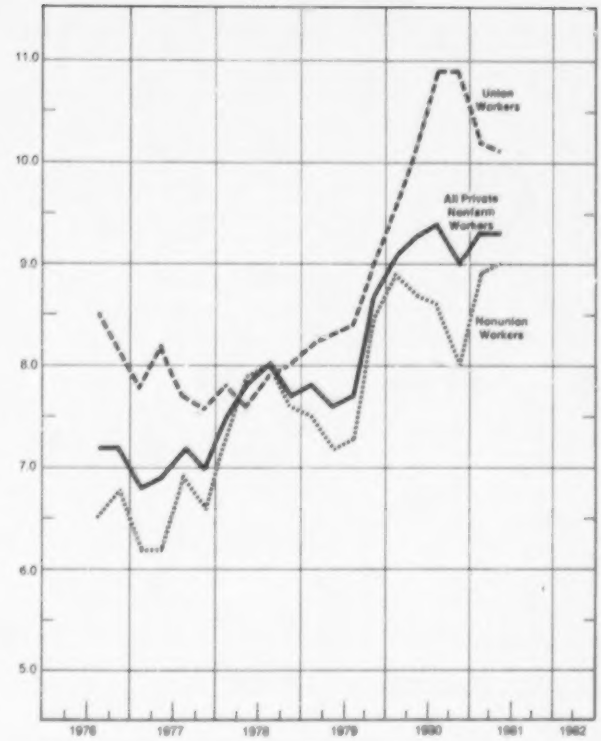
Nonunion Compensation Trends

Wage increases for the nonunionized 80 percent of the work force are more sensitive to local and national labor market conditions, and also the profitability of the employer. For a decade, however, the impression has grown that compensation "ought," somehow, to reflect inflation rates. The pressure on merit pay systems recently has been to provide rates of increase influenced as much by inflation as by company performance. Even so, nonunion pay trends have been generally lower than union rates of increase since 1975 (See Chart 1).

Most panel members see a narrowing of this disparity during 1982, but for widely varying reasons. Mr. Lewin—who expects strong recovery and economic growth to begin by midyear—predicted some labor shortages, and competitive bidding for skilled nonunion employees.

Chart 1

Rates* of Wage and Salary Change in the Employment Cost Index



* Rates of change cover 12 months ending in the quarter indicated.

Source: Bureau of Labor Statistics; The Conference Board

> "I expect the overall rate of pay increase for unionized groups to be higher than for nonunion groups in 1982, but the differential will be smaller than in previous years, perhaps 10 percent compared with 9.5 percent.
>
> "I anticipate that the effect of the recent federal tax cuts, and perhaps also of higher-than-forecast federal expenditures, will be to bid up the demand for labor. Most of this effect will be felt in the nonunion sector, where pay adjustments occur more quickly than in the union sector. Historically, the pay of nonunion workers has risen more rapidly than the pay of unionized workers during economic expansions.
>
> "Since I envisage 1982 as a year of slight to moderate economic expansion, I expect nonunion workers to be particularly subject to demand pressures. I do not see these pressures as being so substantial, or the unionists' emphasis on job security as being so strong, as to produce a situation in which nonunion workers' pay will increase *more* rapidly than unionized workers' pay—although that could happen in 1982 or, more likely, in 1983 or 1984.
>
> "Also there is evidence of growing shortages of certain types of nonunion employees—for example, computer analysts and programmers—which implies that pay will be bid up relatively rapidly for such employees in 1982, thereby contributing to an overall increase in the rate of pay growth for nonunion employees. It is difficult to identify comparable shortages of unionized personnel."

DAVID LEWIN
Professor of Business
Graduate School of Business
Columbia University
New York, New York

This argument depends upon a vigorous resumption of economic growth in 1982. Moreover, it suggests that this growth will concentrate new demand upon high-technology jobs—nonunionized scientific, engineering and technician occupations in industries such as defense electronics. This highly selective tightening of the labor market will cause salary bidding and leapfrogging to such an extent, in this prediction, that it will affect the average rate of wage increase for all nonunion employees. Meanwhile, the employment contraction in unionized older industries will weaken wage pressures, turning that union curve downward in slope.

Other panel members were not expecting strong growth, and perhaps for this reason did not bring up wage "hot spots." In a year-long period of recession and weak recovery, nonunion wages will show the greatest sensitivity to loose labor markets. Mr. Winpisinger said:

> "If economic contraction accelerates, the percentage gain in union settlements may moderate, *but that of the nonunion sector will fall further and faster.* Thus the gap between union and nonunion compensation will remain the same or widen. This is because nonunion workers have little or no defense against unilateral pay decisions made by employers who find themselves under pressure."

WILLIAM W. WINPISINGER
International President
International Association of Machinists and Aerospace Workers (AFL-CIO)

And Mr. Irwin agreed:

> "In many nonunion operations, employers have greater ability to reduce the size of wage and salary increases. Often the employees are more concerned about job security and world competition than in many unionized operations."

DONALD IRWIN
Vice President
Employee Relations
Paccar Inc.
Bellevue, Washington

The Effect of Rising Unemployment on Government Policy

Policies that are sensitive to increased unemployment include:

- tariffs and other trade barriers
- unemployment insurance: qualifications, duration and payments, funding
- domestic protectionism and industrial "rescue" measures
- immigration control
- government actions affecting labor-market efficiency (e.g., minimum wages, construction wage fixing, payroll taxes, etc.)
- transfer payment systems (e.g., social security, medicare, medicaid, welfare)

There is, of course, an *existing* government policy on each of these broad subject areas: it has accumulated over many years in specific pieces of legislation and administrative refinement. The question before our panel was whether a "conservative" Administration would move to change any of the existing (and continuing) government policy—and how a year of stagnation and relatively high unemployment would affect the Administration's agenda.

At the time The Conference Board's panel met, the layoff rate among manufacturing employees had risen to 1.7 percent—the highest level in over a year. New applications for unemployment compensation by people who had recently lost their jobs had risen to over a half-million each week since late in September, 1981. Under these circumstances, it seemed to the panel that the Administration would (after a year in office) turn its attention to a human resources policy that would be dominated by the unemployment issue. Possibly, also, policy formation would be reactive to the prospect of Fall, 1982 elections.

Mr. Carlough said that recession coupled with industrial shift puts a great deal more pressure on individual security:

> "No one really knows how to deal with the simultaneous recession and inflation that recent years have brought us—least of all this Administration. The mix of high interest rates, brought on in the name of monetary restraint, and the draconian budget cuts of the very programs that could facilitate and cushion whatever ajdustments might be required are very much part of the problem. They are certainly not the solution.
>
> "Because this recession is different, because it follows a long period of poor economic conditions, and because its end cannot be anticipated, I believe that industrial contraction and restructuring may very well be accelerating in 1982. In a sharper, more sudden decline, a marginally sound plant may be kept going by a large company, with or without some cutbacks, in anticipation of better times. But the cumulative effect of prolonged poor conditions, coupled with prohibitive interest rates for business borrowing, will move such plants out of the marginally sound category and lead to more restructuring and contraction. As this happens, conflict is inevitable.

EDWARD J. CARLOUGH
President
Sheet Metal Workers' International Association (AFL-CIO)

> "There is a school of thought that holds that a recession every once in a while is good for the economy because it forces out the weaker, less competitive firms and plants and thereby, through a corrupted version of "natural selection," makes the economy as a whole stronger. I certainly wouldn't subscribe to that theory. But it is clear that a dynamic economy requires a continuous process of restructuring and change as new industries arise, technology changes, and old industries become less competitive. Given that necessity, the critical question is: Should the full price of having that dynamic economy—from which we all benefit—be paid by the individual workers who happen to work in a particular plant or industry? When economic decline and contraction are added to the normal dynamics, so that the displaced cannot be reabsorbed, that question becomes even more critical.
>
> "The final policies being followed by this Administration make it very clear that the plight of the displaced worker is none of its concern. Unemployment insurance programs to cushion the blow and give breathing space in which to job hunt; public training programs to assist in the retraining and adjustment process; programs to assist those hurt by imports—all have been seriously cut back. If the Administration has its way, they will be cut even further. It is moving in a direction diametrically opposed to the 'comprehensive adjustment policy' that the labor movement and many others have long advocated as the only fair way to spread the burden.
>
> "Tight fiscal and monetary policy are a fascinating abstraction for economists to experiment with in the large laboratory of our nation's economy, but you can bet that the worker—who finds himself without a job, a pension, or his work-based health or life insurance; who finds his unemployment compensation running out while the unemployment rate is still rising and there is no job in sight; who is facing staggering increases in the cost of health care for his family with no public program to turn to in his need, and so on and so forth—will resent being the guinea pig. If the economy's performance is as poor as expected in 1982, and the Administration's policies are continued, intensified conflict over the entire spectrum and direction of policy can be expected."

Mr. Wynn also sees unemployment in terms of the people he represents. He did, however, perceive an Administration human resources policy, disapproved of it, and expected it not to change:

> "Sharp industrial contractions such as these could have been avoided if U.S. executives had been investing capital and modernizing their operations in the 1970's. Unfortunately, working people will suffer tremendously for these management mistakes. In addition, the current wave of mergers and acquisitions is concentrating economic power into fewer and fewer hands. These conglomerate mergers are intensifying the industrial restructuring of the U.S. economy.
>
> "Recession and structural change will undoubtedly result in unemployment and social adversity for millions of Americans. For this reason, we believe that public support will dramatically wane for fiscal restraint.
>
> "The entire industrial world will feel the impact of recession, and the obvious reaction on the part of corporations and governments will be to seek protection and guarantees against import competition. It is the responsibility of governments to bring some order and equitable control to these world markets. The problems of international trade have to be settled through multilateral agreements among nations. Unfortunately, the U.S. government seems to be backing away from this approach. Already, the Reagan Administration has refused to renew the international trade agreements on shoes.

WILLIAM WYNN
President
United Food and Commercial
Workers International Union
(AFL-CIO)

> "At the same time, past vehicles to aid structurally unemployed workers and their families have been severely cut down. Moreover, the political environment does not allow for new federal policy prescriptions for critical areas like health insurance or plant closings. The current Administration is much more ideological than most people believe, and its ability to change direction in reaction to public pressure may be much more constrained, even in an economic crisis.
>
> "As far as deregulation is concerned, I don't foresee trucking deregulation being reversed. Deregulation's effect on collective bargaining is already evident. Scores of companies have gone bankrupt, while thousands of truckers have been laid off. The situation has become so chaotic that the Teamsters have agreed to reopen the agreement."

Unemployment Increases Pressure for Protection

All of the panel members expected increased pressure on the Reagan Administration to restrict free trade. Pairing with Mr. Wynn's comment above, Mr. Lewin thought that the conservative, free-market ideology of the Administration will prevail over political considerations:

> "I expect to see some increases in calls for protection from import competition in 1982. But I do not believe that these efforts will result in new import quotas or tariffs. Currently, we are in a period in which various policies are being directed toward expanding and opening market forces, not toward restricting or closing them. Since protection from imports is a euphemism for higher domestic prices and reduced supply, I cannot envision new 'protections' (of the producer!) being enacted in 1982. Certain employers and unionists may call for such protections, but they won't get them."

The day that the Labor Outlook panel met, the Secretary of Commerce was announcing to steel industry executives that the Administration would impose new duties on French, Belgian, Brazilian, Rumanian and South African steel. This Administration action suggests that government policy has become protection oriented, at least with respect to steel. Mr. Neylan expected this turn of events:

> "Since 1962, when the Trade Expansion Act became law, Trade Adjustment Assistance benefits have been used to offset organized efforts to raise tariff barriers, or otherwise limit imports. Benefits in the millions of dollars have been paid to workers in the footwear, steel, auto and textile industries, among others, as the price of free trade. During the past two years, attitudes have begun to change. The UAW, long a free-trade supporter, has been campaigning against Japanese imports since 1979 and is presently lobbying for a new law that would specify North American content in cars sold here. AFL-CIO President Lane Kirkland, in testimony before a Senate Committee last July, committed the AFL-CIO to a lobbying effort directed at GATT (General Agreement on Tariff and Trade) which would link imports to higher pay and improved working conditions in the developing exporting countries. Union- sponsored efforts will accelerate in light of the Administration's budget cutting, which will reduce Trade Adjustment benefits in 1982 and thereafter.
>
> "Unions are being joined by industry—specifically steel, which threatens anti-dumping suits. In the renegotiation of the Multifiber Arrangement (MFA), the American Textile industry wil seek restrictions on imports to protect its own strong export position. Ironically, while our steel industry threatens anti-dumping suits against European steel producers, the U.S. textile industry may well face similar actions in Europe to which textile imports increased almost 20 percent last year.
>
> "It has been said that free trade is now in greater danger than at any time since World War II. According to the GATT, the growth of international trade has stopped and it does not appear that most countries will experience a substantial recovery in 1982. It is axiomatic that when economies falter, governments protect jobs at home. The most likely industries to be protected, whether by tariffs or negotiated restraints, are steel, auto, fiber-textile, and petrochemicals. I note that even rabbit-meat processors are lobbying to restrict the import of frozen rabbit meat from China."

JOHN RAMSER
Vice President
Koppers Company, Inc.
Pittsburgh, Pennsylvania

Mr. Ramser saw protectionism—whether from imports or domestic competition—as a consumer issue. Perhaps consumerism still lives, at least enough to stop any industry or union interest from enacting protective measures to promote employment.

> "I believe that 1982 will see some continued calls for protection from import competition. But with the very limited protection given to the auto and steel industries in recent years, with increased sophistication on the part of consumers that import restrictions cut two ways, and with the most vital sectors of our economy needing foreign trade to flourish, I believe that stiff import rules are not likely to be imposed.
>
> "Trucking deregulation will not be reversed; airline deregulation will not be reversed; and additional industries that have had governnment umbrellas excusing their members from competition may find those umbrellas folding up. Neither labor nor management wanted decontrol of the trucking industry or the airline industry—but it happened anyway."

Mr. Winpisinger added that protected industries are drained of competitive vigor. Since we must be pushing to increase the vitality of U.S. businesses, he was particularly disturbed when unions are "led down the garden path" of protection. Yet, coming from a conglomerate union with members in a wide variety of industries, this is easier for him to maintain than for a one-industry union leader such as the Auto Workers' president.

Mr. Reed covered the underlying themes in the protection discussion—and then raised a new concern.

> "The success of these calls for protection will depend directly upon the state of the economy and level of unemployment generally as well as on the state of the particular industry, the number of workers dependent upon it, and its political constituency. Despite the Administration's commitment to free trade, it is highly probable that there will be some 'gives.' These are liable to take various forms. For example, the agreement on level of auto imports was reached through negotiation by the United States and Japan rather than by Congress legislating protection through tariff barriers or restrictions. Certain farm products continue to receive price supports, and so on.
>
> "One major issue receiving increasing attention from the Administration is the reverse of the export of manufacturing jobs: the growing trend among foreign firms to buy or merge with American companies, and to build their own manufacturing facilities in the United States. This is happening more and more in the auto industry and in such high-technology industries as television and stereo component manufacturing. American jobs are not lost. However, foreign competition and the export of capital acquire a new complexity."

"Social Safety Net" Government Programs

A number of government policies that are considered part of the "social safety net" (or public social welfare functions) also intervene in free labor-market operation. Unemployment insurance qualification, amounts, duration of entitlement, and requirements for job search—all affect labor-market operation and the mobility of labor. In 1982, job seekers may have to lower their wage expectations, search extensively in other industries and geographic areas, and learn some different skills. Mr. Neylan described some of the public policy pressures that will develop:

> "The changes we have seen in industry during the past several years will continue in 1982, and beyond. Assets will continue to be redeployed as managers sell off or close units which do not provide adequate returns.
>
> "This process of change is exposing problems in our society which few managers ever recognized in the past. Where a plant is sold, the employees have a new opportunity to succeed—frequently under more sensitive management. Shutdowns, however, raise problems that are going to be increasingly difficult to address if the present trend toward conservatism and fiscal restraint continues.
>
> "Blue collar employees have never been mobile even when transfer opportunities are presented.[1] There have been references to the effect that Ohio steel workers offered jobs elsewhere refuse transfer; rubber workers eligible for transfer to other plants under their labor contract are unwilling to move. The few that do accept transfer frequently return to their home cities. The growing evidence of immobility is already intensifying arguments for a national welfare system, to even out the variations in benefit programs which play a significant role in workers' decisions. During the past several years, unemployment has run at higher levels than we were accustomed to during the 1960's and 1970's. The burden of providing benefits has been borne by the states with federal assistance.
>
> "In 1982 and the years that follow, we will find ourselves on a collision course, caught between the need to provide solutions to our employment problems and the need to reduce spending and live within our means. Labor unions can be expected to generate pressures for increased unemployment compensation, both in amount and the period such benefits are paid. This pressure will be at both the state and federal level. Furthermore, there will not be strong opposition by the business community to those increases.
>
> "While job training programs are a popular remedial notion, I doubt whether the economic situation will produce a substantial increase in training programs because of the cost and the historic lack of success of these efforts.
>
> "Plant closing legislation is favored by unions, and has support with Democrats in both House and Senate, but I do not believe that the votes are there to support limitations on the 'right' of plant closure or removal. In the final analysis, Congress will be looking at a large number of

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[1] See, for example, Audrey Freedman, "Plant Closed—No Jobs," *Across the Board*, The Conference Board, August, 1980.

> social programs which must be funded, and I believe that the majority of the members of Congress will assume that private industry and labor unions will find the solutions to assisting those out of work due to plant closings."

Mr. Irwin did not expect an impact on Administration policy:

> "In 1982 unemployment will continue to rise and there may be a reduction from two wage and salary earners to one—the other drawing unemployment insurance. The economic impact may not be as drastic as some have forecast, although I recognize that certain industries and regions will be affected more than others."

Most of the panel members, however, foresaw growing conflict and pressure upon the government to increase and expand—rather than to cut back—its social welfare role. Mr. Read commented:

> "As industrial contraction and restructuring continues, conflict is most likely to increase over the "plant closing" issue. Labor will take strong positions on measures to provide job security for its members. Emphasis will be aimed at minimizing the impact of plant closures on workers, as well as on more intense lobbying for restrictive legislation designed to protect existing jobs and reduce management flexibility in this area.
>
> "The increase in unemployment will bring additional pressures for further expansion of unemployment insurance. Conflict in this area could be substantial in view of the present Administration's determination to cut back on entitlement programs. Attempts to expand unemployment insurance benefits will create direct confrontation with the Administration's objectives."

Certainly, the fiscal stringency required to hold the budget within credible distances of "balance" is threatened by a growing social expenditure. Mr. Carlough appeared to be advocating a return to a government role of a scale last discussed twenty years ago.

> "The mechanisms we have in this country to move workers out of declining industries into growing ones are extremely poor even in the best of times. When the effects of a recession are regionally concentrated, and also concentrated in certain industries, one has to assume both migration and occupational change if one is to expect the readjustment and reabsorption measures to have a mitigating effect. The evidence suggests that this is an unrealistic expectation.
>
> "There is considerable misunderstanding about the mobility of the population of the United States. Over the last decade we have indeed seen a large net migration in which the Northeast and North Central regions have lost approximately 4.5 million people to the South and West. But the movement has not been broadly based across population or occupational groups. Research has shown that it was the well-educated, professional people who migrated. And the age of greatest migration was 23, steadily declining with age thereafter. The workers who are likely to be most hurt by a recession do not fit the pattern of the migrator. They are less educated and largely older, with the type of family responsibilities that have been shown to inhibit migration. And it hardly needs to be said, that, with interest rates what they are, anyone with a house would neither be able to sell it in a declining area nor afford to buy a new one in a growing area.
>
> "This country falls far short of having adequate adjustment mechanisms even during periods of economic growth. We have no structures to assist the mobility of those who are unlikely or unable to move on their own from labor surplus to labor shortage areas. The history of efforts to assist the process of occupational change through training has been spotty, subject to use as a political football. What does exist has been cut, in the name of a balanced budget.
>
> "There are public and private policies that could improve the physical and occupational mobility of the work force. They come under the heading of a comprehensive adjustment policy. Very briefly, they include liberalized severance pay and early retirement; continuation of life and medical insurance for workers who are laid off or whose plant has closed—or, even better, a national health insurance scheme so that this extremely serious problem would not arise; counseling; realistic retraining programs; financial assistance for relocation; and some specific liberalizations of unemployment insurance laws. The exact division of the responsibility for these various measures between government and industry is a subject on which reasonable people may differ. But the need for such a national policy is critical to the development of increased flexibility in the adjustment of the economy to both cyclical and secular trends.

Mr. Reed described some responsive shift in emphasis that he felt is already taking place:

> "Both the private and public sectors will have to put renewed emphasis on retraining the displaced. This is becoming critically important, given the shift from basic to high-technology industries. Companies must become even more sensitive to the effects of technological change and job and geographical shifts. Companies are, of course, showing a greater awareness of this, in part by locating plants and offices near skilled work forces. And they are taking economic and competitive considerations into greater account when changes are being planned.
>
> "Unemployment benefits and job-security issues are likely to heat up as unemployment becomes a much more important concern than inflation for an increasingly larger number of people. In particular, pressure is likely to build to restore unemployment insurance benefits to the extended 39-week period. Also, the deepening industrial contraction and resulting pressure to shut down aging facilities will accelerate public support for congressional consideration of 'plant closing' remedies. Overall, public support for budget cuts in social and welfare programs will

substantially weaken and be replaced by pressure to restore funds previously cut in these areas.

"As the pace of economic recovery speeds up in the second half of 1982, however, these pressures should start to ease, and concerns about fiscal restraint are likely to begin to build once more."

Wage Fixing, Construction-style

Davis-Bacon legislation, which regulates the wage rates that must be paid by contractors on federal construction projects, was discussed without resolution by the panel. Mr. Read described the current proposal to change the administration of Davis-Bacon wage determinations:

> "At no time in the past 50 years has the labor movement been faced with the pressure it does today for changes in the Davis-Bacon Act. There is no argument over the original intent of the Davis-Bacon Act, which was to prevent a migratory construction work force from undercutting local wage rates during a severe depression. However, in the current time frame and the manner in which the Act has been administered, Davis-Bacon demands some revision to fit the realities and needs of the construction industry as it exists today.
>
> "The most significant change proposed by the Administration is a modification of the current 'prevailing wage' rule on federal projects. Currently the 'prevailing wage' is essentially that representative of unionized scales, regardless of other established rates. If the change is adopted, the 'prevailing rate' would be that paid to a majority of workers in a given classification or the average rate, if no single rate is paid to a majority. In addition, the Administration proposes a strict prohibition against the use of wage data for a metropolitan area in determining the prevailing rate for a rural area."

Mr. Lewin suggested that some reduction in fixed wages would reduce construction unemployment:

> "Downward revisions in prevailing rate determinations under Davis-Bacon could bring about an increased demand for construction and an increase in the derived demand for construction labor. Further, such revisions should serve to raise the union share of the construction market slightly as they bring unionized wage rates down closer to nonunion wage rates in this industry. (However, since a major issue in Davis-Bacon type prevailing rate determinants is the extension of wage rates in the unionized construction sector in large urban areas to the unionized construction sector in smaller urban and nonurban areas, the impact of revisions on differences in wage rates between the union and *non*union portions of the construction industry may be quite small—as would be the impact on the union and nonunion shares of the market.)
>
> "The total picture is one of an industry—or, rather, the unionized sector of an industry—that is depressed, and in which the institutions of wage determination are and will be adjusted to bring about wage rates and wage patterns that are more consistent with the economics of the industry than they have been heretofore."

Mr. Neylan, also, predicted improved employment opportunities:

> "In areas where federal projects predominate, the effect would be more dramatic as nonunion companies enter the competition for work. The supply of labor would increase as individual workers, particularly minorities, find greater opportunity in the open-shop environment.
>
> "Outside the orbit of Davis-Bacon, these phenomena are already occurring. Open-shop companies are seizing a greater share of heavy construction, particularly in the South and Southwest where growth rates are highest. Exxon has awarded a large synfuels contract to an open-shop company in the Rocky Mountain area strictly on the basis of cost, and predictably more such awards will be made in the future. It seems to be a fact that the rates paid by open-shop companies do not differ materially from union construction rates. They may even be higher in some instances, with the cost differential being made up by the flexibility that features open-shop construction."

Minimum Wage

The panel did not foresee any pressure to increase the minimum wage—nor any action to repeal the Fair Labor Standards Act as an impediment to full employment. Its disemployment effects could fade as inflation "lowers" the minimum wage relative to the average market rate. Mr. Lewin observed:

> "Historically, the minimum wage has approximated 45 percent of the straight-time manufacturing wage, though this relationship has fluctuated considerably. The current minimum of $3.35 per hour, which went into effect in January, 1981, as the last phase of the 1977 amendments to the Fair Labor Standards Act (FLSA), is 42 percent of the approximately $8.00 per hour manufacturing wage that prevailed in the United States in the early fall of 1981.
>
> "Much has been made about the disemployment effects of minimum wage legislation since the FLSA was enacted, and the fact of controversy about the magnitude of these effects is the one constant in this area. Various economists have found that the duration of unemployment is lengthened by minimum wage legislation. In my judgment, studies attesting to the negative effects of minimum wage legislation on resource allocation in the economy have contributed to a climate in which political support for further increases in the minimum is at a low ebb.
>
> "As to the establishment of a two-tier structure of minimum wages, this might be a more plausible and likely action in 1982-1983 if the proportion of younger workers in the work force were growing, or even stable. However, it is declining, and will do so particularly rapidly in the 1980's. Therefore, the problem underlying proposals for a two-tier minimum wage is, in a sense, being outgrown. Thus, I see very little prospect of a two-tier minimum wage being enacted in the United States—in the short run and beyond."

Mr. Irwin disagreed on this last point, emphasizing the effect of unemployment on public policy:

> "There will be greater political support for a two-tier minimum wage, especially with increasing youth unemployment. Indexing the minimum wage will not be achieved; indexing in general will be in disfavor."

Mr. Neylan noted the union attitude on unemployment and the minimum:

> "Unions continue to view it as the ultimate 'safety net,' ignoring the evidence that it contributes to unemployment particularly among minority youth."

Mr. Wynn—whose union has a lot of members in food, service and retail industries at the low end of the wage scale—offered these predictions:

> "We do not expect proposals for a two-tier minimum wage to attract more political support. But we do foresee increases in, and possibly the indexation of, minimum wage in the future."

And Mr. Winpisinger added:

> "Proposals to index the minimum wage may gain support, depending on how successful the AFL-CIO is in gaining influence in the Democratic Party."

Throughout the day's discussion, one theme kept recurring: Firms are seeking lower labor costs outright. Companies are putting new plant and new technology into low-wage and nonunion areas. Their competitors are doing the same. So, where wage rates are fixed by union contract, employers are making moves to escape: renegotiate; move to another plant and close the unionized facility; move production overseas; employ foreign labor here. The only strategy for reducing input of high-cost labor that was *not* mentioned was new investment in labor-saving technology. Interest costs seem to be discouraging that response—even though recent tax changes were meant to create incentives for investment in new capital equipment.

Escaping high wage costs may be linked to immigration policy. "Illegal" immigration is aimed at the target of our labor market: Aliens come here seeking work. Because they are eager for employment and strongly motivated, and because they are in the shadow of being "undocumented" and are therefore deportable, such workers are glad to accept employment at relatively low pay—perhaps below the minimum wage—and "substandard" conditions.

Immigration Policy

The Reagan Administration has made two proposals with regard to immigration. Both of them are labor-market linked. First, the Administration understands that "border control" means employment control. It proposes to prosecute employers of undocumented aliens. This transfers a good deal of border patrolling to the personnel office. It also requires some system of identification for all workers (including U.S. citizens), so as to separate the undocumented from the whole group of job seekers. Second, the Administration proposes a guest-worker program of permitted temporary immigration for specific limited employments, such as harvesting.

The panel members did not think that the Administration's proposals would pass, though union leaders found some virtue in regulating immigration. Mr. Winpisinger said:

> "Illegal immigration has the same effect on our economy as high unemployment rates: It encourages abuse and exploitation of the most vulnerable workers, depresses wage gains, and sustains management inefficiency.
>
> "The IAM, together with the AFL-CIO, strongly supports immigration legislation that tightens eligibility standards for the granting of asylum and that significantly penalizes employers and labor contractors who employ undocumented workers. Not all the proposed legislation requires identity cards. A bill introduced by Sen. Huddleston (D-Ky.) provides for a beefed-up system of verifying Social Security numbers, which would not create any additional burden for ordinary workers but would increase employers' responsibility to hire citizens and resident aliens first.
>
> "Needless to say, a guest-worker program is totally inappropriate to an economy with an 8 percent unemployment rate, and with unemployment rates at double-digits for that segment of the population that most frequently would be in competition with any such guest workers—that is, minorities and youth."

Mr. Wynn, speaking from the experience of a food industry unionist, was also in favor of restricted access to U.S. labor markets—and opposed guest-worker programs:

> "We sense that it is very likely that legislation penalizing employers of illegal aliens will be passed. The U.S. labor movement is united on this particular issue. At the same time, proposals for a guest-worker program and a sinister system of employee identification would greatly alter the supply and demand mechanisms of the free labor market. The program would, in fact, represent a new subsidy for employers. The government would import workers and thereby depress wages and working conditions. The result would be that the weakest portion of the population would have to pay the cost of this employer subsidy."

Mr. Lewin suggested that no governmental action will be taken—but then he hedged on labor-market "conflict":

> "Estimates of the size of the illegal alien work force in the United States run as high as eight million, and a 'penal-

ty system' would affect a large number of employers. Moreover, the idea of penalizing an employer (or an employee) who is a party to a more or less voluntary labor-market transaction seems ill-founded and unlikely to deal effectively with the underlying problem. Further, despite the Administration's and the AFL-CIO's position on this issue, there does not appear to be widespread support for legislation imposing financial penalties on the employers of undocumented aliens. On the contrary, most of the Congress is opposed to this idea as, of course, are most employers.

"Should unemployment in the United States approach or exceed 8 percent in 1982, however, conflict between illegals and other workers (not to mention employers) is likely to be exacerbated."

A sense of social movement pervaded Mr. Ramser's comments:

> "The influx of illegal immigration has encouraged a movement of industry to the western sun-belt states and has helped moderate the increases in the cost of food (except for meat and grains). Despite many 'humanitarian' voices of concern, I believe there is recognition that aliens are willing to risk a great deal, including their lives in some cases, to get here to America, simply because wages and working conditions—no matter how bad—are better than in the countries they flee.
>
> "I do not expect that legislation will be passed that penalizes employers of undocumented aliens. Americans grumbled at the introduction of zip codes in an era when they were law-abiding and peaceful. I don't foresee them accepting a national system of identification which would be enforceable against aliens—particularly when the tide on government controls is running in the other direction."

Major Collective Bargaining Events in 1982

Not very long ago, the headline power of auto bargaining was enough to make it "the beginning of the three-year cycle of heavy negotiations." There were those who disagreed: no, steel negotiations were the fountainhead. And then, with the tailoring of President Carter's voluntary controls to fit around the framework of the Teamster settlement, the trucking negotiations became a pattern-maker of sorts.

The power of each of these three leading bargains is gone. As each industry—autos, steel and trucking—meets with a new competitive situation, it is reshaped by new sets of market forces that once were alien. This is particularly true of wage bargaining. Consequently, it is necessary to examine the effects of unavoidable market pressures on pattern bargaining. Three themes emerge in this examination. Greatly oversimplified, they are:

(1) The trucking, auto and steel bargains will be very "moderate," setting an example for other union negotiations.

(2) Their leading role will be forfeited, but picked up by defense aerospace.

(3) The whole idea of wage leadership, modeling and patterning will disappear as *fragmentation occurs—to the individual company and plant level.*

During the panel discussion on 1982 bargaining, it seemed that—although everyone agreed that a major change is taking place—the only way to analyze the change will be to look back upon it three years hence. Certainly the established, "settled," "mature" relationships that had developed over decades are now in flux. Mr. Neylan described the change:

> "Pattern bargaining in auto, steel, farm equipment, and transportation has been a way of life since the 1940's, when the industrial union became a meaningful influence on bargaining. Both auto and steel had monopoly positions in the sense that they did not have serious foreign competition. Because of their protected markets, none of the principal companies was concerned about inflationary labor settlements. They simply passed on increases to the customer and, it is said, even made money on the increases by using a percentage pricing formula. Now, our high labor costs (without compensating productivity increases) are pricing both U.S. cars and steel out of world markets. The consequences, at least in part, are large numbers of laid-off employees and substantially lower profits—or no profits."

Mr. Read underscored the reasons for pattern breakup, and described the modest variations in 1980 metals patterns:

> "There is ample evidence that deviations from pattern bargaining have been taking place over the last several years. These deviations fell into two categories: those negotiated at contract termination, and those negotiated during the agreement in hardship situations. There is a very strong likelihood that these deviations will substantially increase in the next two years. Among those industries which appear to be most susceptible are: steel, aluminum, copper, auto, rubber and agricultural machinery.
>
> "Companies will bargain harder to highlight the differences in product mix and other competitive differences in justifying the deviation from established industry patterns. The past automatic extension of major pattern settlements in major industries to different product lines and market conditions will become less applicable.
>
> "Pattern bargaining, which had been traditional in the metals industries, steel, aluminum and copper, did not hold up in 1980. The basic steel settlement provided for diversion of 33¢ in COLA to pay for pension improvements, and the COLA formula remained at .3 = 1¢ (providing a cost-of-living payment of 1 cent per hour for each increase of .3 in the Consumer Price Index). The *aluminum* industry followed with a wage settlement iden-

> tical with steel, but deviated in three major areas. COLA was increased in the third year of the agreement to .26 = 1¢, and there was no COLA diversion for benefits improvements. For certain noncompetitive aluminum fabricating plants the wage settlement was lower. The *copper* industry, next in line in the metals industry pattern bargaining, reached a settlement that placed it approximately midway between steel and aluminum. Wage increases were identical with the pattern, but there was no diversion of COLA to pay for pension improvements, and copper did not move to the .26 = 1¢ COLA formula. In a number of instances over the past several years, companies have taken strikes, particularly in aluminum and brass fabrication, in order to avoid basic-industry pattern settlements, which in the past imposed noncompetitive conditions. Management in these cases recognized that market conditions could no longer be ignored and took a firm stand against pattern bargaining. Also, in 1980 petroleum industry bargaining, marketing—which traditionally had followed the manufacturing wage pattern—negotiated lower settlements.
>
> "A second aspect of deviations from pattern bargaining has developed during the past two years with interim modifications occurring during the term of those agreements that originally had been based upon patterns. Chrysler is a prime example. Wheeling-Pittsburgh Steel Corporation obtained a deviation from the basic steel settlement by deferring two COLA payments and the $150 bonus, and has just removed itself from the 10-company bargaining group. Workers at two U.S. steel fabricating plants agreed to take a three-year wage freeze and also to drop out of the basic steel pact. American Motors negotiated a settlement with the UAW in 1980 which did not follow the "big three" auto pattern by obtaining a more favorable form of diversion of COLA to cover fringe benefits costs. The UAW also granted concessions to Massey-Ferguson, departing from the pattern in the agricultural implement industry. These allow the company to pay a reduced pension and to delay payment of COLA increases and annual wage increases. Several airlines have recently obtained special wage consideration."

Mr. Reed said that settlements will be moderate, but seems to feel that fragmentation and individuation to the plant level is not developing:

> "The 1982 round of bargaining will include many of the major industries that have been the significant pattern setters not only for their own but for related industries and for the level of most subsequent settlements. They are, of course, auto, trucking, electrical and rubber. Some of these industries have major problems—auto and rubber due to foreign competition and trucking due to deregulation. High wage and benefit settlements in next year's round would be in neither union nor industry interest. The question is whether pattern bargaining will be abandoned by either party or both. It is likely that 1982 will be the time for *more responsible patterns*, along with a continuation of still lower settlements for those companies or factories in serious difficulty.
>
> "Employees in those industries that have problems increasingly recognize that more moderate settlements are necessary to preserve jobs and contribute to their companies' economic health. Because of this, union members will exert less pressure on their leaderships to hold out for settlements that outpace other agreements or break the industry patterns."

Mr. Winpisinger acknowledged that wage leadership is a thing of the past in auto and steel. But, he said, defense contracts will fatten the aerospace industry. The two unions in aerospace (Autoworkers and Machinists) that "used to lead off auto" will now switch that patterning relationship:

> "Within our jurisdiction and experience, patterning is likely to be sustained most strongly in aerospace. With the largesse of the Reagan defense program clear to all, defense contractors will certainly not be able to plead poverty. And there is enormous potential for extending the patterns set with prime contractors throughout the subcontractor network."

Mr. Reed pointed out that the bargaining sequence puts aerospace *after* auto, agricultural equipment, steel and other metals (see Table 2). Mr. Carlough and Mr. Ramser agreed that pattern bargaining will continue, for reasons that might be characterized as "inertial." In Mr. Ramser's words:

> "Although I believe that pattern bargaining will continue to diminish in scope, I doubt that there will be any massive distintegration of it. The example of Wheeling Steel is likely to be repeated in some isolated cases, but the overall pattern in industries which have patterns will continue. The forces which led to the current situation are likely to continue—that is—the desire of labor leaders to consolidate their power and the desire of corporate leaders to be no worse off in wage costs than their competitors. The examples of the coal, auto, steel and construction industries point in my mind to an almost blind obsession with continuing the status quo."

And Mr. Carlough added:

> "The fact that bargaining in 1982 may be exceedingly difficult, and that 'give backs' have become part of the 1981 landscape, does not mean that pattern bargaining will disappear or that companywide and/or industrywide settlements will break up. Such speculation strikes me as a bit more than premature. The basic reasons that impelled management and unions in the past to move toward industrywide and/or companywide bargaining have not disappeared. Such bargaining held together in bygone periods even when individual establishments suffered economic difficulties—and even when some were forced to close because of those difficulties.
>
> "I'm inclined to think that, while the 1982 settlements may be more modest than they have been in recent years, pattern bargaining will still exert considerable influence on

Table 2: Selected Major Contract Expirations by Industry[1]

	1982	1983	1984
January	Furniture (Jan. - Nov.) Oil	Sugar	Food processing (cereals, bakeries; (Jan. - Oct.)
February	Hospitals (March, May, July, Dec.) Food processing (canneries, packers, frozen & dried foods) (Feb. - July)	Tobacco	Metal containers
March	Trucking Local Delivery and Parcel Men's clothing (March, Aug., Oct.) Chemicals (March - Nov.)	Glass (March - Sept.)	Paper (Western states)
April	Rubber	Textile	
May	Paper (May - July) Textile Women's clothing (May - Sept.)	Aluminum Paper (May - July) Lumber	Cement
June	Electric equipment (June - Oct.)	Copper Shipbuilding and repair (Pac. Coast)	Maritime (Deep Sea) transportation Class I Railroads
July		State of Illinois	California Food Retailers Longshore (West Coast)
August	Meatpacking	Steel Communications Equipment Telephone Service	
September	Auto Agricultural, Construction, and Mining Equipment	Longshore (East and Gulf Coasts)	Coal Mining
October		Aerospace	
November			
December	Tobacco		

[1] In each year, large numbers of construction contracts expire in May and June; the industry is omitted from this table. Utility contracts covering state and localized electric and gas distribution companies are widely scattered throughout 1982, 1983, and 1984 and are, therefore, also omitted from this calendar.

those situations where such bargaining has been influential in the past."

Trucking

Panel members expected National Master Freight bargaining, already in progress, to produce a very moderate settlement. Here, deviations and side agreements outside the master contract are already taking place. The Teamsters union estimates that 20 percent of its driver members have been laid off. Union bargainers are striving to maintain what they had in previous contracts: COLA and pension, health and welfare trust contributions by employers. Individual company concession bargaining, and fragmentation of master and regional "conference" agreements, increasingly seem possible.

Rubber

A greatly shrunken union and industry are bargaining in terms that unions once called "give backs." In many companies, individual plants have already broken out of the companywide "master" contract—on wages and COLA, penalties for weekend work, job redesign, and the duration of the contract itself. Several panel members expected further reductions in COLA coverage, or diversion of COLA-generated amounts "to pay for the increased cost of benefits." Plant closing benefits may be an issue (the major rubber contracts already contain 6 months' prior notice), even though the major wave of industry contraction is probably completed. One panel member simply listed "give backs on COLA, Supplemental Unemployment Benefits, and work rules," while others referred to job protection and security bargaining.

Electrical

In the General Electric and Westinghouse bargains, panel members expected a good deal of focus on COLA. Some foresaw diversion of COLA amounts to "pay" for benefits; some expected restrictions on COLA or a direct "buy out." Three panel members thought that there is at least a one-in-four chance of strike.

Auto

Job-security bargaining is the phrase applied most often here. Panel members discussed what the term "security bargaining" really means (since the auto industry devised what was held, until recently, to be a model solution).[2] Finally, one union president said: "Security bargaining is the term you use when you are trying to explain to the members that they will have to take a wage cut."

The term "adversity bargaining" might be more apt. Panel members offered some specifics: "new caps on COLA, less frequent payouts, new authority for suspension in local plants." Another said broadly: "give backs in SUB, COLA, pensions and work rules; cost sharing, automation." A break between General Motors and Ford seems possible; Chrysler and American Motors are already out of pattern. The possibility of individual plant breakouts, particularly at Ford, is growing.

Agricultural Machinery

This bargaining once followed the auto bargain closely. Now, according to the panel members, pattern breakup is "almost inevitable." One commented: "Caterpillar and Deere will probably follow auto, but the other three may insist on their own settlement." International Harvester is expected to get major concessions from the union. The variations in company strength and viability in this industry are as great as among automobile companies—but union responsiveness to company weakness may be "too late" for parts of each industry.

Construction

Several panel members expected negotiated wage increases to be lower in 1982 than they were in 1981. This year's major bargains produced a first-year wage increase of 13.9 percent.[3] Mr. Reed thought that construction wage pressure is most influenced by inflation rates, so it will decrease significantly in 1982:

> "The construction industry certainly has some weak spots at this time, particularly in identifiable trades and geographic locations; housing and highway construction are soft due to high interest rates on mortages and the cutback in federal highway funding. But most other construction lines are healthy, and in some parts of the United States there are shortages of skills in a number of the trades. There is evidence that the current weak spots in housing and highways will show some strength by the second quarter of 1982.
>
> "Bargained wage increases in the construction industry have not been significantly influenced by cyclical or temporary abundances in the labor supply, the overall level of construction activity, or the wage increases bargained by nonconstruction pattern setters. The major contributors to the level of construction wage increases have been inflation and the give-and-take at the bargaining table.
>
> "Current projections of the rise in the Consumer Price Index in 1982 are in the range of 7 to 8 percent. With such a substantial decrease in inflation from the 10 to 11 percent rate of the past few years, we should see a significant reduction in the current rate of wage increase bargained in construction. Failure to reflect the decrease in inflation adequately through modest wage settlements will certainly give further impetus and strength to the nonunionized or open sector of the construction industry and encourage general deferrals, cancellations or reductions in the expenditure of construction dollars, resulting in further underuse of the unionized building trades."

Mr. Ramser offered a wry observation to the effect that the industry does not respond to market cues:

> "The construction industry seems to have quite a few people who don't read the newspapers. In addition, they don't have Japanese workers to compete with. Interest rates that exceed the historical 3 percent real rate of return by a good margin tend to sap the will of financiers and owners, who might otherwise be willing to resist demands of construction workers. Consequently, I believe construction wage increases will continue to outpace nonconstruction rates—with the result that union construction will have a decreasing share of the overall market.
>
> "As for the effects of Davis-Bacon on wage rates, I suspect that the administrative revisions will have some moderating influence, but perhaps not as much as the supporters desire. The same complex of laws, vested interests, and unequal bargaining positions will cause the parties to continue on their present path as surely as the lemmings march to the sea.'

Mr. Lewin disagreed, predicting wage restraint under work-expansion rubrics:

> "The rate of wage increase in the unionized construction sector is at its highest level in 10 years. If we look back to the 1969-1971 period, when annual rates of wage increases in this sector were consistently of the double-digit type, we can recognize that this was a major factor in the subsequent entry and expansion of nonunion establishments into the construction industry. The unionized sector found it increasingly difficult to compete with a lower cost nonunion sector. Consequently, the pace of wage increases in unionized construction slowed considerably in the 1970's, with no single year of double-digit increases recorded

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[2] Audrey Freedman, *Security Bargains Reconsidered: SUB, Severance Pay, Guaranteed Work*. The Conference Board, Report No. 736, 1978.

[3] Bargains reported to the Bureau of Labor Statistics in the first nine months of 1981.

between 1972 and 1980. Even so, nonunion construction continued to expand as a portion of the total construction industry throughout the 1970's, and the severe unemployment that characterized most building trades unions at the start of the decade moderated only slightly by the end of the decade.

"Abstracting from this experience and moving to the current and near-term future periods, I anticipate some reduction of rates of wage increase in the unionized construction sector in 1982—from about 12 percent currently, on average, to around 9.5 percent, on average, in 1982. The bases for this forecast are (1) a stiffer bargaining stance on the part of unionized construction firms as their portion of the total construction industry continues to decline; (2) relatively more union emphasis on the reduction of unemployment and the spreading of work opportunities and relatively less on pay increases; and (3) a 'tight money' policy on the part of the Federal Reserve Bank, with consequent upward pressure on interest rates and a concomitant reduction in the rate of growth of the construction industry, especially the unionized portion of the industry.

"There are several examples of local building trade unions that have recently agreed to absolute wage reductions in efforts to increase their members' employment and to keep certain employers in business. These may be regarded as a precursor of a more general trend toward the moderation of rates of pay increase in construction industry bargaining. It is typically the case that labor and management in depressed industries respond to such a circumstance by emphasizing job security or work sharing, and by moderating rates of pay increase. This is what I expect will occur in the unionized portion of the construction industry in 1982."

Worker Participation

The term "productivity bargaining" started the discussion of worker participation on a somewhat sour note. Distinctions were made that are helpful in understanding current negotiating agendas. Mr. Lewin made some of them:

> "If there is a notable growth in productivity bargaining, it has escaped my notice. Taken literally, the term "productivity bargaining" suggests that productivity is a leading standard of wage and nonwage determination in American collective bargaining, but this is not now true—and never has been, to mv knowledge. Comparability and cost of living have been the leading criteria in bargaining in the United States. At the moment and for 1982, ability to pay seems to be gaining ground as a bargaining criterion. The same cannot be said of productivity.
>
> "If productivity bargaining is taken to mean cooperative negotiations or labor-management cooperation, then it can be said that some increase has occurred, though this is difficult to document on an aggregate basis. The joint committee is perhaps the most concrete and significant manifestation of labor-management cooperation in the unionized setting. Typically, these committees are established to deal with safety and health conditions, and, less often, with productivity, work practices, and work or job design. There are virtually no systematic evaluations of the work of these committees and, thus, no basis for knowing how effective they are.
>
> "Quality circles exist in the unionized sector of the steel, chemical, oil, auto and electrical products industries. What these represent, in effect, is ongoing worker *consultation.* Thus, the quality circle may be more new form than new substance. But circles and other consultative devices are not necessarily the same thing as *participatory management,* when this is defined as representation in decision making.
>
> "I see little evidence that managers in the unionized sector want workers to participate in decision making. Quite to the contrary, most managers in unionized firms seem to believe that organized workers have too much, rather than too little, participation. In the nonunion sector, it is no secret that quality circles and participative management are often used as union-avoidance devices—although this does not mean that they are valueless—and this may be what most distinguishes the nonunion from the union sector. In sum, quality circles and participative management exist in both the union and nonunion sectors, are probably spreading more rapidly in the latter sector, but, as practiced on the American scene, do not represent fundamental alterations of the structure of decision making in the firm."

Mr. Neylan distinguished union from nonunion situations, essentially on the basis of a preexisting receptivity to cooperation:

> "Generally speaking, productivity programs are *difficult to start in union operations and tend to be less vigorous and far-reaching than in the nonunion environment.* The politics of the union environment alone are enough to stifle the most aggressive efforts at productivity improvement. In the nonunion arena you are free to lay your cards on the table with employees in such a way that they identify your problem as theirs. There is no third party to complicate the process. A management exposes its problems and develops solutions without having to contend with political considerations.
>
> "The whole productivity thrust, whether you call it QWL, Quality Circles, or whatever, has its greatest application in the nonunion setting. It will develop further, produce more in material benefits, and contribute to the growing strength of the technologically advanced organizations where it has found its greatest acceptance."

There was disgreement on this point from other management members of the panel. Mr. Ramser saw cooperative techniques as giving new lines to the unions' institutional role:

> "I have often wondered what, if any, is the role of labor organizations in our present economy. It is not difficult to see what their role was in the years preceding World War

> II. But as wages and working conditions have dramatically improved, even labor leaders must wonder what they should be doing for an encore. I believe that quality circles and other similar techniques give the labor movement an opportunity to redefine their role in a way which most people would view as beneficial to our society. To the extent that labor and management identify common problems which both parties may have a hand in solving, the labor movement would have a new sense of purpose.
>
> "There is not much difference between unionized and nonunion environments when measuring the problems or potential benefits of quality circles and incentive systems. In fact, a union environment may be better for introducing some of these devices: In that atmosphere there is, perhaps, greater security for the individual workers and, thereby, a greater willingness to consider new ideas once the need for change is perceived.
>
> "If this effort is to be successful, I believe that the efforts of management and labor must be carried on in an atmosphere which differs from the traditional arm's-length adversarial bargaining relationship. There are some indications that the attention given to productivity by labor and management *is* occurring in a different climate—that there is less 'bargaining' and more 'cooperation.'
>
> "In some cases there is studied indifference on the part of the unions to the quality circles and productivity schemes, but obviously even this is better than hostile opposition. Adversarial bargaining seems to work reasonably well in a rapidly growing environment, but cooperation is needed in a stagnant or shrinking environment."

Comments from union leaders were guarded, to say the least. Mr. Wynn's was negative.

> "Personally, I do not believe there will be any significant growth in productivity bargaining until management is willing to offer unions total access to corporate information relevant to this problem. The unwillingness of employers to share information has been the major obstruction to union-management cooperation in regard to technological change in the retail food industry. In addition, the use of quality circles and participative management schemes has been, in our experience, an employer strategy to evade or circumvent union representation. Until U.S. managers accept unions as legitimate institutions, there will be no serious or meaningful cooperation."

Mr. Winpisinger was nearly as negative, on somewhat different grounds. He described how the suggestion to set up a worker consultation system is *itself* converted into an adversarial management "demand," and bargained over.

> "From a recent survey we found that very few IAM locals have experience with quality circles. But when management does attempt to bring them in, the idea immediately becomes subject to the bargaining process. In many cases it quickly becomes apparent that this is yet another device for attempting to end-run union representatives and assert management control in a new and different guise. Workers spot this very quickly and the process usually falls apart. Quality circles also fail in those instances in which workers' views are shown to have little practical impact, for example, when a conflict arises between workers' concerns and company interest in short-run cost minimization—a typical experience when health and safety matters are concerned.
>
> "We are beginning to get reports of management ceding greater worker control in certain aspects of their operation in nonunion plants, in order to keep the union out. We know of one case where the workers in the nonunion runaway shop (including undocumented alien workers) have the right to 'vote out' their foremen. This right has not been offered to our members at the unionized plant."

Mr. Carlough carefully specified some satisfactory kinds of cooperative and consultative systems. So long as they are steered by management toward solidifying the union's institutional presence as intermediary between employer and worker, they are acceptable to unions:

> "From the union point of view, there are clear distinctions between the various types of programs under discussion. I can state unequivocally that American unions have no desire or intention of giving up the adversarial relationship that exists between them and management for the purposes of bargaining and grievance processing. Unions are also understandably wary of programs that might come under the headings of 'management flexibility' or 'work practices,' when that means a unilateral management right to breach the contract. That does not mean, however, that cooperation is precluded.
>
> "Cooperative efforts must grow out of mutual trust on the part of workers and management of each other's motives, and out of mutual respect. If management has a hidden agenda of lessening the power of the union or circumventing the contract, that will not be lost on the workers, and conflict will inevitably arise. There is evidence from the study of a large number of such efforts that they work best where there has been a long-standing relationship between management and the union from which that trust can grow.
>
> "While efforts in this area have some unique qualities in each plant or industry, the study of the experience in productivity-enhancing cooperation in the unionized sector has yielded a number of characteristics that are typical of successful programs:
>
> > (1) "Labor management committees are *not* a substitute for the adversary relationship in collective bargaining. The scope of joint responsibility in the committee must carefully avoid those issues that are properly the subject of bargaining or the grievance procedure.
> >
> > (2) "Both parties must see positive benefits from participating in the joint committees. For employers this means greater productivity, including quality workmanship, less waste, better work organization,

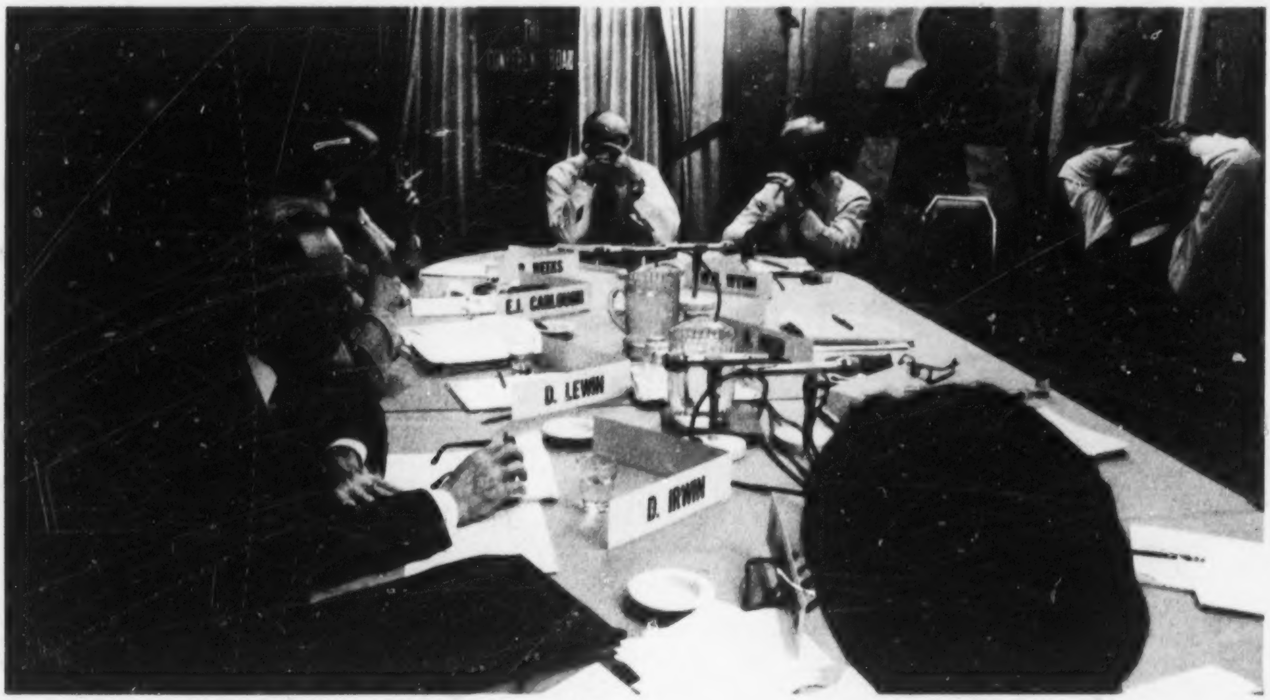
> and a motivated work force. For employees, this means a share in the productivity gains (through collective bargaining), more job security, and greater participation and satisfaction.
>
> (3) "The union must be assured that the cooperation will not undermine its role as a strong and effective representative of the workers.
>
> (4) "Management must be assured that the cooperation does not threaten its authority to effectively run the organization.
>
> (5) "The workers must be assured that the cooperation will not result in increased production standards—an assurance against speedups—and that it will not threaten the security of their jobs. Productivity gains as a result of cooperation must not result in layoffs."

On the other hand, Mr. Reed suggested that unions should view worker participation as a useful realization of the old slogan "industrial democracy."

> "The labor movement is at a crossroads in terms of new directions and objectives. It has been losing membership; very little organizing is being done; and there is greater management resistance. The labor movement is experiencing increasing mergers—a contracting, not an expanding, mode. It has lost its political clout to save old programs or to produce new ones. There are divisions within the labor movement between the haves and have nots; pro- versus anti-nuclear, prodefense versus propublic employment, and so on. Labor has failed to address the changing attitudes and needs of younger workers, women and minorities. In short, the labor movement is in disarray.
>
> "It could very well be that there is a union opportunity and challenge in cooperative approaches. A beginning of this process could possibly be increased union emphasis on quality circles and similar techniques related to participatory management. Labor has the opportunity for expansion of industrial democracy in the quality-circle approach."

The subtitle of this *1982 Labor Outlook,* "The Brakes Are On," refers particularly to wage inflation and pressures for "more" in a no-growth economy. However, the brakes may also be "on" for the adversarial, full-tilt industrial warfare that has characterized some U.S. employee relations. A change in viewpoint on the part of management is summarized in this final comment by Mr. Neylan:

> "The success of the quality-circle concept has nothing to do with money or wages. It says again that people prize participation at least as much as wages, and maybe more.
>
> "Employers who realize the importance of communications and the open environment that it fosters will continue to pay lower wages than the highly structured unionized organizations which emphasize the adversary relationship between employees and management. Nonunion employers seize the opportunity to explain the fallacy of increasing labor costs without corresponding increases in productivity. Since the nonunion sector is not inhibited by long-term labor agreements, adjustments can be made as the situation changes—with ample time to sell, to explain the reasons to employees who are coming to realize that they are part of the decision-making process."



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Research Bulletin

The Corporate Contributions Professional

by Anne Klepper

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CORPORATE CONTRIBUTIONS is an emerging function. A handful of professional managers worked in this field before, during and immediately following World War II. As contributions budgets rose, and an increasing number of companies launched programs, growing numbers of part-time and full-time personnel were employed.

Overview

This is the first comprehensive, detailed study of the corporate contributions function. A two-part questionnaire was sent to all *Fortune* 1300 companies in 1980 requesting 1979 data, and more than 500 responses were received. Of those who identified their industries, 322 were manufacturing companies and 195 were nonmanufacturers. This is a survey of personnel at company headquarters only; it was not sent to any plant communities.

This report is a professional profile. In order to preserve absolute confidentiality, no company identification of any kind was used, save whether it was in manufacturing or nonmanufacturing. Hence, no comparisions are possible between this study and the *Annual Survey of Corporate Contributions.* A profile of the function will be the subject of a subsequent publication, which will explore contributions mechanisms and budgets, approval levels, governance and staffing, and functional relationships.

From the *Fortune 1300* mailing, 524 professional profiles were filed by 435 companies (companies having more than one professional in the contributions function filed a separate profile for each such person). A cluster of responses converge around the 200-plus figure:

- 216 persons (41 percent) have a specific company foundation or contributions title;
- 213 have budgets of $1.1 million or more;
- 228 spend 51 percent or more of their time on the contributions function;[1]
- 239 either have primary discretionary authority to approve grants (120 cases), or share such responsibility as a supervisor or staff member (119 cases);
- 272 work for corporations whose 1979 consolidated net sales were over $1 billion;
- 170 have responsibility for dues and memberships, as well as contributions;
- 208 participate in supplemental compensation plans (incentive compensation, bonus, stock options, etc.).

These data suggest that there are but a few hundred major corporate contributions *programs* in the United States at this time. A program (as distinct from casual, low-budget, or unplanned giving) would have the earmarks indicated above: a full-time professional in charge (with an appropriate title reflecting that professionalism); a budget of over $1 million; a major level of responsibility for planning and budgeting plus discretionary authority to approve grants; and probable employment in a corporation with net sales over $1 billion.

Profile of Respondents

Most respondents work for the biggest companies in the *Fortune* 1300 list—53 percent (260) are with companies that have net sales of over $1 billion. The largest block—34 percent (165 of the 491 responding to this question)—work for the largest companies—those with net sales over $2.5 billion (see Table 1). The respondents are divided almost two-thirds to one-third between manufacturing and nonmanufacturing companies (this is a somewhat heavier emphasis on nonmanufacturing than the *Fortune* 1300 sample).

The respondents are a well-educated group. Only 85 persons have either just high school educations or two years or less of college; 435 persons have four-year college degrees; more than half have done some graduate work as well, with 183 earning advanced degrees.[2]

Credentials pay: For the 392 persons providing both salary and degree information, the high earners are those

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[1] For this study, those spending 51 percent or more of their time are characterized as "full time" in the function; those spending 50 percent or less are characterized as "part time."

[2] Here and in other places in the text, the numbers given are for those who answered the specific question. In the tables, however, where two characteristics are presented, the totals may be smaller.

Table 1: Full-Time and Part-Time Contributions Personnel, by Company Size and Salary

	Company Size by Net Sales																			
Salary Level	*Under $5 Million*		*5-24.9*		*25-49.9*		*50-99.9*		*100-249.9*		*250-499.9*		*500-999.9*		*1 Billion-2.4*		*2.5 Billion and Over*		*Total*[1]	
($ thousands)	*FT*[2]	*PT*	*FT*	*PT*	*FT*	*PT*	*FT*	*PT*	*FT*	*PT*	*FT*	*PT*	*FT*	*PT*	*FT*	*PT*	*FT*	*PT*	*FT*	*PT*
Under $15	1	0	1	0	0	0	0	0	0	0	2	0	0	2	1	1	2	0	7	3
16 - 20	1	1	0	1	1	0	2	2	2	3	2	4	2	7	6	6	9	1	25	25
21 - 25	0	0	1	2	1	1	3	0	1	1	9	0	2	3	5	1	16	3	38	11
26 - 30	0	0	0	0	0	0	0	0	1	2	2	3	3	1	9	2	16	2	31	10
31 - 35	0	0	0	1	0	2	0	1	2	4	1	2	1	4	8	4	14	2	26	20
36 - 40	0	0	0	0	0	0	0	0	0	2	2	8	1	2	4	7	13	2	20	21
41 - 50	0	0	0	1	0	1	0	2	1	11	1	6	1	13	6	8	20	5	29	47
51 - 60	0	1	0	1	0	1	0	0	0	8	0	9	0	10	0	6	18	8	18	44
61 - 70	0	1	0	1	0	1	0	0	0	2	0	5	2	12	0	7	6	6	8	35
71 - 80	0	0	0	0	0	0	0	2	2	4	1	4	0	2	0	5	9	4	12	21
81 - 90	0	0	0	0	0	0	0	0	0	1	0	3	0	1	1	2	3	1	4	8
90 and over	0	0	0	1	0	1	0	0	0	3	0	8	0	4	0	6	1	4	1	27
Totals	2	3	2	8	2	7	5	7	9	41	20	52	12	61	40	55	127	38	219	272

[1] In this and other tables comprising the "professional profile," not all respondents answered every question.

[2] FT = Full-Time; PT = Part-Time in all tables where these groups are separated.

with the advanced degrees—MBA's, doctorates and law degrees—(MA's did not fare as well, with nearly half of them earning less than $35,000; see Table 2).

What does it take to go over the $40,000 mark?[3] The MBA's, the doctorates, and the holders of law degrees passed that mark more often than the other groups.

For the group, life indeed begins at 40. More than 70 percent (377) of the 524 respondents were over 40, with the largest group between 51 and 60 years of age (178). Another 146 persons (28 percent) were between 41 and 50 years of age.

Most had worked for their companies ten years or more; about half of the group (224 out of 463) had been with the company more than fifteen years. Not unexpectedly, they were big earners—59 percent of the 16 to 20-year group, 65 percent of those in the 21 to 30-year group, and 70 percent of those with more than 30 years of service were paid over $40,000 (see Table 3).[4]

More males than females are working in contributions (355 to 168), but this is markedly different for those who work *full time* at the function (107 males to 115 females). Only a few members of minority groups worked in contributions in the companies reporting: sixteen blacks; five Hispanics; three Asians; and two American Indians (a few were not identified). Of these, seventeen are working at the executive level (director, manager); ten are staff members (administrators, analysts); and three are vice presidents.

Titles and Time Spent on Responsibilities

Of the 524 respondents, 216 (41 percent) had *specific contributions titles;* either in a direct giving program or in a company foundation. The larger block, 307 persons (59 percent) had *corporate titles,* not contributions titles; and one respondent gave no title (see Table 4). This division bears a close relationship to the amount of time spent on the function.

Generally speaking, those personnel with *contributions titles* worked full time (i.e., more than 51 percent of the time) at the contributions function, while those with corporate titles did not. Two hundred and ninety-five persons spent less than half of their time on contributions. One hundred and fifteen were top management (chief executive officers or vice presidents) who have ultimate responsibility for the function, although it is a minor part of their jobs. They may, or may not, have full-time professionals working for them.

These title-time distinctions are the most important differences found in this study and permeate all the findings. They essentially define the corporate contributions professional manager. They separate top corporate officers (who oversee contributions) from managers who plan and execute programs of some dollar dimensions. They also account for compensation differences; obviously the highest salaries and supplemental compensation plans go to top corporate officers. The distribution of titles is shown in the tabulation below.

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[3] The salary ranges for this survey were divided into 12 groups, and the $40,000 mark is the end point of the sixth range and just about the median.

[4] Only 463 of the 524 respondents provided information for Table 3.

RESPONDENTS' TITLES

Contributions Titles (216)

Direct Corporate Giving Program		*Company Foundation*	
Vice president	1	President	10
Executive (director, manager, secretary)	61	Vice president	11
		Executive	38
Staff (analysts, administrators, assistants coordinators)	63	Staff (program officers, analysts, assistants)	32
Total	125		91

Corporate Titles (307)

Chief executive officer	11
Vice president	104
Executive (secretary, treasurer, director, manager)	126
Staff	66
Total	307

In the large majority of cases, the company's contributions program was administered either through a direct-giving program only (240), or through a combination of direct program and company foundation (237). Only in a minority of cases (45) was the program administered solely through a foundation. As might be expected, employment assignments followed these same breaks: 252 persons worked in a direct-giving program only; 189 worked for both direct giving and a foundation; 70 worked just for a foundation.

One hundred and seventy persons had responsibility for dues and memberships as well as contributions. The size of such budgets ranged widely, the smallest being $500 and the largest coming in at $13 million (the median was $125,000). However, for those persons carrying *specific contributions titles only,* the median for dues and memberships budgets was much higher—$500,000—

Table 2: Full-Time and Part-Time Contributions Personnel, by Level of Educational Attainment and Salary

Salary Level	*Educational Attainment*															
	BA		*BS*		*MA*		*MS*		*MBA*		*Doctorate*		*Law*		*Total*	
($ thousands)	*FT*	*PT*	*FT*	*PT*	*FT*	*PT*	*FT*	*PT*	*FT*	*PT*	*FT*	*PT*	*FT*	*PT*	*FT*	*PT*
Under $15	3	1	0	0	0	0	0	0	0	0	0	0	0	0	3	1
16 - 20	10	9	2	0	5	3	0	1	0	0	0	0	0	0	17	13
21 - 25	14	5	2	0	7	0	0	0	0	2	0	0	0	0	23	7
26 - 30	9	4	4	1	4	0	0	0	5	1	2	0	0	1	24	7
31 - 35	10	8	4	2	1	2	0	1	4	1	1	0	0	1	20	15
36 - 40	4	7	3	6	2	3	0	0	4	1	4	0	1	0	18	17
41 - 50	9	14	4	4	3	3	1	0	5	12	1	2	1	7	24	42
51 - 60	5	18	1	4	5	3	0	1	1	7	4	1	2	3	18	37
61 - 70	4	11	1	5	1	4	0	2	0	4	1	1	1	6	8	33
71 - 80	4	11	2	1	1	1	2	0	0	1	1	0	1	3	11	17
81 - 90	1	1	0	2	0	0	0	1	2	1	1	0	0	3	4	8
90 and over	1	11	0	3	0	0	0	0	0	4	0	2	0	4	1	24
Totals	74	100	23	28	29	19	3	6	21	34	15	6	6	28	171	221

Table 3: Full-Time and Part-Time Contributions Personnel, by Years of Employment with Present Company and Salary

Salary Level	*Years of Employment with Present Company*													
	1-5		*6-10*		*11-15*		*16-20*		*21-30*		*Over 30*		*Total*	
($ thousands)	*FT*	*PT*	*FT*	*PT*	*FT*	*PT*	*FT*	*PT*	*FT*	*PT*	*FT*	*PT*	*FT*	*PT*
Under $15	4	0	1	2	0	0	1	0	0	1	0	0	6	3
16 - 20	14	12	2	8	2	2	2	0	1	1	0	1	21	24
21 - 25	8	1	6	4	8	1	3	1	7	1	2	1	34	9
26 - 30	9	1	5	2	2	2	5	1	3	2	3	1	27	9
31 - 35	6	3	4	2	4	4	3	2	4	6	3	4	24	21
36 - 40	3	5	2	4	1	4	2	2	5	7	3	0	16	22
41 - 50	2	4	3	12	3	11	3	8	12	9	4	3	27	47
51 - 60	2	4	2	5	0	14	5	7	8	11	1	3	18	44
61 - 70	1	4	0	3	1	10	0	4	2	11	3	1	7	33
71 - 80	1	2	1	1	0	2	0	2	5	6	5	7	12	20
81 - 90	0	1	0	1	0	0	0	1	2	1	2	4	4	8
90 and over	0	3	0	5	0	3	0	2	1	4	0	9	1	26
Totals	50	40	26	49	21	53	24	30	50	60	26	34	197	266

Table 4: Respondents, Time Spent on Contributions by Title

Title	25 Percent or Less	26 to 50 Percent	51 to 75 Percent	76 to 100 Percent	Total
	Time Spent				
Foundations title	3	5	12	71	91
Contributions title	5	9	19	92	125
Other corporate title	218	55	24	10	307
Totals	226	69	55	173	523[a]

[a] One respondent did not give a title.

another indication of a more sharply focused professional program.

Some 50 respondents had other contributions-related responsibilities such as community-civic affairs (57), support for activities of senior executives (52), and other public affairs duties (50). A smaller number of respondents (less than 20) had other responsibilities such as volunteer programs, educational relations, United Way or Savings Bond drives, and so on. And a scattering of respondents (less than 20) had responsibilities in human resources, the corporate secretary's office, financial, legal, administrative or planning functions.

Characteristics of Respondents

Only 228 persons (of the 524 filling out the profile) spent more than half of their time on the contributions function (55 spent between 51 and 75 percent; the other 173 spent 76 to 100 percent of their time). This is the group dubbed the "full timers," the contributions professionals whose major job concern is the contributions function.

This group is the prime focus of this survey. It is, perhaps, smaller in numbers than many had anticipated. It correlates closely with the number of persons (216) carrying contributions titles (either with foundation and/or direct-giving programs) as contrasted with corporate titles.[5] It is the body of personnel associated with corporate contributions *programs* (planned, budgeted, focused efforts with formulated policies, goals and objectives). The group is about evenly split by sex (107 males to 115 females), although two-thirds of the total survey respondents are male. It is mainly concerned with budgets over $1 million (only 22 percent of the full timers work on budgets lower than that amount).

What are the major characteristics of the "full timers" in the contributions job? First, they work for the biggest corporations. Fifty-eight percent of these professionals are in companies with net sales of $2.5 billion or more; another 18 percent are in companies with sales from $1 to $2.4 billion (only 34 percent of the part timers are with companies having $1 billion or more in annual sales). Only one-third of the full time contributions people make $41,000 or more; 57 of them are with companies with 2.5 billion and more in sales (see Table 1). By contrast, two-thirds (182) of the "part timers" exceed the $41,000 mark (spread fairly evenly among companies with net sales over $100 million).

Second, most (145) of the full timers who provided this information work on both foundation and direct-giving programs. Only 15 persons worked *solely* for company foundations, another 63 worked on direct-giving only. Most "part timers" (168 or 61 percent) worked on *only* direct-giving programs (see Table 5).

Third, the "full-timers" are concerned with larger contributions budgets. About half of them have budgets from $1.1 to $5 million; another quarter have budgets exceeding the $5 and $10 million marks, only 8 percent work on budgets of less than $500,000. For the "part timers," the reverse holds true. Almost all of them (238 or 86 percent) work with budgets of less than $1 million; about two-thirds work on budgets of $500,000 or less. The high salaries of these people reflect their other (noncontributions) responsibilities (see Table 6).

Titles

Of the 216 survey respondents with *contributions* titles, 209 provided salary information (see Table 7). Eighty-eight had foundation titles, 121 had contributions titles for direct-giving programs. Only 10 percent had top management titles (president or vice president—all but one in company foundations), and foundation presidents do *not* always spend full time on contributions matters. They are often top corporate executives who wear this additional hat.

The patterns, as to be expected, are clear. Most of the foundation presidents and vice presidents (including one contributions vice president) are in the top half of the salary scale—all but six earn $41,000 or better. The bulk

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[5] Only 22 persons with foundation or contributions titles spent less than half their time on the function. Two hundred and seventy-three persons with corporate titles worked under 50 percent of their time on contributions (only 34 spent more than 50 percent).

Table 5: Full-Time and Part-Time Contributions Personnel, by Foundation and/or Direct-Giving Responsibilities and Salary

Salary Level	Foundation Only		Direct Giving Only		Foundation and Direct Giving		Total	
($ thousands)	FT	PT	FT	PT	FT	PT	FT	PT
Under $15	0	1	2	1	5	1	7	3
16 - 20	3	4	7	14	16	9	26	27
21 - 25	3	1	10	9	28	1	41	11
26 - 30	1	1	6	6	24	3	31	10
31 - 35	2	4	8	8	16	9	26	21
36 - 40	1	1	7	16	12	5	20	22
41 - 50	2	6	9	29	18	12	29	47
51 - 60	0	2	6	26	12	17	18	45
61 - 70	2	3	3	23	3	9	8	35
71 - 80	1	2	4	13	7	6	12	21
81 - 90	0	0	1	6	3	2	4	8
90 and over	0	3	0	17	1	6	1	26
Totals	15	28	63	168	145	80	223	276

of the "full-timers" carrying contributions titles are about evenly divided between executives (directors, managers) and staff members (analysts, administrators). In earnings, 61 percent (58) of the executives and 87 percent of the staff members report salaries under $40,000. Only 15 foundation executives and 22 direct-giving executives make $41,000 or more. Even six persons carrying top foundation titles earn under $40,000.

Staff members (administrators, analysts, coordinators, assistants)—be they in foundation or direct-giving programs—are clustered in the lower salary brackets: 74 percent of them earn under $30,000 (21 with foundations; 48 in direct-giving programs). In fact, 22 people, or 35 percent of the direct-giving staff members, earn under $20,000.

Education

The level of educational attainment for the full-time and part-time personnel is quite comparable. More than half of both groups (57 percent) have bachelors degrees, about one-sixth have masters, a quarter have MBA's, doctorates and law degrees (31 percent for the part timers).

For professionals of comparable—or even identical—educational attainment, the major factor determining higher compensation is whether or not they carry *other noncontributions* responsibilities. For the MBA's and the lawyers, the contributions "full timers" earned less than their counterparts who spend less than 50 percent of their time on the function. Twenty-one MBA's worked at contributions full time (34 were part timers); just over

Table 6: Full-Time and Part-Time Contributions Personnel, by Size of Contributions Budget and Salary

	1979 Contributions Budget											
Salary Level	$500,000 or less		501,000-1 Million		1.1-5 Million		5.1-10 Million		Over 10 Million		Total	
($ thousands)	FT	PT	FT	PT	FT	PT	FT	PT	FT	PT	FT	PT
Under $15	3	2	1	1	3	0	0	0	0	0	7	3
16 - 20	3	16	10	8	11	2	0	1	2	0	26	27
21 - 25	3	7	4	0	17	2	5	2	2	0	31	11
26 - 30	2	6	2	3	19	1	1	0	7	0	31	10
31 - 35	1	12	7	6	16	2	0	0	2	0	26	20
36 - 40	3	13	2	7	10	2	2	0	3	0	20	22
41 - 50	0	33	4	9	15	6	5	0	5	0	29	48
51 - 60	0	27	0	11	10	5	1	1	7	0	18	44
61 - 70	0	23	1	4	0	7	5	0	2	1	8	35
71 - 80	1	12	0	5	6	3	2	1	3	0	12	21
81 - 90	0	6	0	1	2	1	0	0	2	0	4	8
90 and over	0	19	0	7	0	1	0	0	1	0	1	27
Totals	16	176	31	62	109	32	21	5	36	1	213	276

Table 7: Respondents, by Foundation or Contributions Titles and Salary

Salary Level (\$ thousands)	*Top Management — Foundation — Presidents*	*Top Management — Foundation — Vice Presidents*	*Top Management — Contributions — Vice President*	*Executives — Directors, Managers — Foundation*	*Executives — Directors, Managers — Contributions*	*Staff — Analysts, Administrators — Foundation*	*Staff — Analysts, Administrators — Contributions*	*Total*
Under $15	0	0	0	1	0	3	5	9
16 - 20	0	1	0	3	5	3	17	29
21 - 25	0	1	0	5	7	8	17	38
26 - 30	0	1	0	4	7	7	9	28
31 - 35	1	1	0	5	10	2	5	24
36 - 40	0	1	0	4	7	3	2	17
41 - 50	1	2	0	6	8	2	5	24
51 - 60	0	1	0	7	4	3	2	17
61 - 70	2	2	1	0	3	0	0	8
71 - 80	4	1	0	2	4	0	0	11
81 - 90	1	0	0	0	3	0	0	4
90 and over	0	0	0	0	0	0	0	0
Totals	9	11	1	37	58	31	62	209[a]

[a] Although 216 persons carried foundation or contributions titles, only 209 provided salary information.

one-third of the full timers were paid over $40,000; 85 percent of the part timers were paid over that level. Only six lawyers worked at contributions full time as against twenty-eight who were part timers. None of the full timers was paid more than $80,000, whereas a quarter of the part timers earned at that level. Salary distinctions were not quite so marked between full timers and part timers among those with doctorates (although seven full timers earned less than $40,000 and no part timers did so). Most of those with doctorates were working full time at the function (see Table 2).

Age and Service in Company

Most contributions professionals are over age 40. The bulk of the practitioners, be they full-time or part-time, are from 41 to 60 years of age. One finds a sprinkling of older people doing part-time service in the function—there are seven such persons over 65, but there are no "full timers" of that age. In the under-40 age group, one finds more full-time personnel (38 percent in contrast to only 21 percent of the part timers). Not surprisingly, these young "full timers" are heavily clustered in the lowest salary ranges (see Table 8).

Table 8: Full-Time and Part-Time Contributions Personnel, by Age and Salary

Salary Level	*21-30*		*31-40*		*41-50*		*51-60*		*61-65*		*Over 65*		*Total*	
(\$ thousands)	*FT*	*PT*	*FT*	*PT*	*FT*	*PT*	*FT*	*PT*	*FT*	*PT*	*FT*	*PT*	*FT*	*PT*
Under $15	3	0	0	0	3	2	0	0	1	1	0	0	7	3
16 - 20	10	7	8	9	5	4	2	3	1	4	0	0	26	27
21 - 25	7	1	16	6	7	2	9	2	2	0	0	0	41	11
26 - 30	7	0	10	4	6	3	8	3	0	0	0	0	31	10
31 - 35	3	0	8	4	8	7	6	8	1	2	0	0	26	21
36 - 40	0	0	7	4	5	7	6	7	2	3	0	0	20	21
41 - 50	0	1	2	8	10	20	15	15	2	4	0	0	29	48
51 - 60	0	0	2	6	6	17	9	17	1	2	0	3	18	45
61 - 70	0	0	1	5	1	13	5	14	1	3	0	0	8	35
71 - 80	0	0	0	2	3	2	7	9	2	7	0	1	12	21
81 - 90	0	0	0	0	0	3	4	2	0	2	0	1	4	8
90 and over	0	0	0	1	0	8	1	12	0	4	0	2	1	27
Totals	30	9	54	49	54	88	72	92	13	32	0	7	223	277

Table 9: Respondents, by Corporate Title and Salary

Salary Level ($ thousands)	Corporate CEO	Corporate Vice President	Corporate Executive (Director, Manager)	Corporate Staff	Total
Under $15	0	0	0	1	1
16 - 20	0	0	2	22	24
21 - 25	0	1	5	8	14
26 - 30	0	1	6	6	13
31 - 35	0	4	12	7	23
36 - 40	0	3	17	5	25
41 - 50	0	13	34	6	53
51 - 60	0	18	21	7	46
61 - 70	1	18	14	2	35
71 - 80	0	16	6	0	22
81 - 90	0	8	0	0	8
90 and over	10	15	2	0	27
Totals	11	97	119	64	291

Most respondents have worked for their companies ten years or more (over 60 percent of both full timers and part timers). Years of employment are nearly the same for both groups: over a third have more than 20 years of service. Only at the lowest end of the scale does a difference appear: A quarter of the full timers have been employed less than five years, compared to 15 percent of the part timers (see Table 3).

Compensation

What does the contributions job pay? How does salary relate to title and level of responsibility, percentage of time spent on the function, sex of the professional, educational attainment, age and length of service, and size of the contributions budget? No single area has provoked more inquiries in recent years than that of compensation.

There appear to be three major factors influencing compensation: title and level of responsibility; time spent on the function; and sex of the employee. As logic would dictate, there are close relationships between title and level of responsibility. It must be emphasized again that those respondents receiving the highest salaries (and supplemental compensation) are the chief executive officers and corporate vice presidents (see Table 9). They are essentially being compensated for their *non-contributions* responsibilities, and they spend only a portion of their time on the contributions function. Of all respondents with corporate titles, 71 percent (218) spent less than 25 percent of their time on contributions. Only 34 people with corporate titles spent more than 51 percent of their time on contributions (33 provided salary information). As seen from Table 10, 23 of them earned under $40,000.

Table 10: Full-Time Contributions Personnel, by Title and Salary

	Title			
Salary Level ($ thousands)	Foundation	Contributions	Other Corporate	Total
Under $15	2	4	1	7
16 - 20	5	15	6	26
21 - 25	14	23	4	41
26 - 30	12	16	3	31
31 - 35	9	13	4	26
36 - 40	7	8	5	20
41 - 50	11	12	6	29
51 - 60	10	6	2	18
61 - 70	4	4	0	8
71 - 80	6	4	2	12
81 - 90	1	3	0	4
90 and over	0	0	0	0
Totals	81	108	33	222

Of the 307 persons carrying corporate titles, 291 provided salary information. The 108 chiefs and corporate vice presidents earned amounts commensurate with their positions. Corporate executives (secretaries or treasurers, directors, managers), again, were spread among the salary ranges as were their contributions counterparts, but they earned more money. Sixty-five percent of them exceeded $40,000 (compared with only 41 percent and 38 percent of foundation and direct-giving executives; (see Table 7). Clearly, corporate dollars follow corporate titles.

Even staff members with corporate titles fared slightly better. Only 58 percent were under $31,000 (contrasted with 68 percent with foundation titles and 77 percent in direct giving). But at the bottom, the story was the same: 36 percent of the corporate staff members earned under $20,000 (foundation staff members did somewhat better with only 19 percent in this category).

As previously indicated, level of educational attainment and number of years of employment with the company are virtually the same for those in the part-time and full-time categories. Part timers still do better in earnings because of the preponderance among them of higher level corporate executives with other responsibilities. Compensation differences between the two groups with the same educational background have already been noted. The same relationships are found with respect to years of service. For full timers with over 15 or 20 years of service, only 53 percent and 59 percent, respectively, earn over $40,000—while, in contrast, the figures for part-time contributions personnel are 75 percent and 73 percent (see Table 3).

In terms of age, 62 percent of the full timers were over 40 compared to 79 percent of the part timers. Forty-eight percent of the full timers over 40 were earning over $40,000; 74 percent of the part timers were doing so.

Size of budget, *in itself,* is not a major factor affecting earnings, except for those who work full time on the largest budgets and have overall responsibility for the function. A substantial number of those with budgets under $500,000—and salaries of $50,000 or more—are those top officers in the corporation overseeing the function. A number of those working on budgets of $5 million or better, who are in the lower salary ranges, are the low-level staff members who do not have responsibility for those budgets (see Table 6). *Responsibility* for goal-setting, planning and oversight is the key—not the size of budget or time spent on the job.

Sex

There are marked differences in compensation by the sex of the professional (see Table 11). More than three-quarters of the females (77 percent) earn $30,000 or less a year; nearly three-quarters of the males earn $41,000 a year or more; over half of them earn over $51,000. No female in this study earned over $50,000.

Table 11: Respondents, by Sex and Salary

Salary Level	*Sex*		
($ thousands)	*Male*	*Female*	*Total*
Under $15	1	9	10
16 - 20	6	47	53
21 - 25	10	41	51
26 - 30	12	29	41
31 - 35	31	16	47
36 - 40	32	10	42
41 - 50	66	11	77
51 - 60	63	0	63
61 - 70	43	0	43
71 - 80	33	0	33
81 - 90	12	0	12
90 and over	28	0	28
Totals	337	163	500

Table 12: Respondents, by Sex and Title

	Sex of Employee		
Titles	*Male*	*Female*	*Total*
Corporate officers (CEO's and vice presidents)	111	4	115
Executive	105	21	126
Staff	35	31	66
(Subtotal)	(251)	(56)	(307)
Contributions or foundation officers (presidents, vice presidents)	18	4	22
Executive	57	42	99
Staff	28	66	94
(Subtotal)	(103)	(112)	(215)
Totals	354	168	522

Let us examine two factors that have a major bearing on this finding: job title, which reflects level of responsibility, and amount of time spent on the contributions function. Just over twice as many males as females participated in this survey and provided salary information. There is a heavy concentration of men in the higher level titles (whether they be corporate or contributions titles); the women, on the other hand, are found in the lower levels of both corporate and contributions titles. For those carrying only *corporate titles,* men held 11 chief executive officerships and 100 vice presidencies; females held only 4 vice presidencies (see Table 12). Over 70 percent of the males carried corporate titles (fewer than 30 percent had a specific contributions title with a company foundation or direct-giving program), whereas the reverse was true for the females—two-thirds of them carried contributions titles (again concentrated more heavily at the lower staff levels).

Only some 200 persons carried specific contributions titles, split almost evenly between the sexes. Again, men are most prominently found among the top foundation titles (eighteen presidents and vice presidents compared to four females in those jobs) and are at the upper end among the direct-giving titles as well.

This distribution of job titles is of major significance on two counts: first, as an indication of the level of responsibility; and, second, as an indication of the amount of time devoted to the contributions function. Most of the males with high-level *corporate* titles spend only a small portion of their time supervising the contributions function; it is only one element in their portfolio of responsibilities.

Returning to the amount of time spent on the contributions function (see Table 13): Two-thirds of the men but less than one-third of the women are "part timers" in this function. Of the 230 men who are part time, nearly 60 percent earn over $51,000 (more than 10 percent earn

Table 13: Part-Time and Full-Time Contributions Personnel, by Sex and Salary

Salary Level	*Part-Time*		*Full-Time*		
($ thousands)	*Male*	*Female*	*Male*	*Female*	*Total*
Under $15	1	2	0	7	10
16 - 20	5	22	1	25	53
21 - 25	3	8	7	33	51
26 - 30	6	4	6	25	41
31 - 35	16	5	15	11	47
36 - 40	18	4	14	6	42
41 - 50	45	3	21	8	77
51 - 60	45	0	18	0	63
61 - 70	35	0	8	0	43
71 - 80	21	0	12	0	33
81 - 90	8	0	4	0	12
90 and over	27	0	1	0	28
Totals	230	48	107	115	500

over $90,000). Female part timers are in the opposite situation—half of them earn under $20,000. Clearly, women are not high-level executives carrying this function as one arrow in their quiver.

For the full timers, 60 percent of the men earn $50,000 or less; all of the females do so. More than half of the women (57 percent) earn $25,000 or less. Here are found the foundation and contributions staff members: the administrative assistants, executive assistants, analysts, and so forth.

Although job title, level of responsibility, and time spent on the contributions function are the major factors in explaining higher male compensation, there are other determinants as well. For the full timers, men work with larger contributions budgets than women (35 percent of the males but only 18 percent of the females have budgets over $5 million. Men have a higher level of educational attainment.[6] The men are older (three-quarters are over 40 as against half of the females).

Men have been employed by their present companies longer (55 percent have over 20 years), while half of the women have been there less than ten years. And men have more years of total work experience (with present and previous employers) than women, who are newer entrants into the labor force. The men have also come into their contributions positions from higher level background jobs (85 percent came from staff and management positions as against 64 percent of the women). Twenty-seven women came from secretarial or clerical jobs; only one man had that background.

Supplemental Compensation

Two hundred and eight survey respondents stated that they participated in supplemental compensation plans (other than retirement and/or incentive savings plans).[7] They received incentive compensation, bonuses, stock options, and other pay. Only 18 foundation executives received supplemental income (for a median of $5,250 and a high of $45,000). Twenty-two direct-contributions executives received such compensation, with a median of $4,975 and a maximum of $24,000. One hundred and one corporate executives received such pay (for a median of $9,953 and a high of $200,000). Only 129 people provided information on both time spent on the job and amount of supplemental compensation; as expected, 82 spent less than half their time on contributions (again, the top corporate executives).

Career Path

Contributions is still very much an emerging function. In two-thirds of the cases (350), someone else held the position before the incumbent; in the remaining third, *there was no predecessor*—it was a newly created job.

What happened to the predecessors? Three hundred and thirty-seven respondents supplied data on this point (see Table 14). About 40 percent of the predecessors retired; the second largest block (18 percent) made a lateral move within the company; and 15 percent received promotions. The remainder left the company. In about equal proportions, they left (1) because of health reasons or involuntary termination; or (2) to go to another company.

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[6]

	Males	*Females*
MBA's	18	3
Doctorates	10	5
Lawyers	7	0

[7] Only 141 respondents provided detailed information and titles.

Table 14: Predecessors' Reasons for Leaving, by Title and Sex of Incumbent

Predecessors' Reasons for Leaving	*Incumbent's Title*				*Sex of Incumbent*		
	Corporate	*Contributions*	*Foundation*	*Total*	*Male*	*Female*	*Total*
Retired	101	19	23	143	123	20	143
Lateral move within company	26	25	10	61	42	19	61
Promotion	27	14	11	52	30	22	52
Left company (health or involuntary termination)	22	8	9	39	21	18	39
Went to another company	25	8	5	38	24	14	38
No reason given	4	0	0	4	3	1	4
Totals	205	74	58	337	243	94	337

More men (about half) moved into the slots of retirees than into jobs vacated for other reasons. Women filled all vacated jobs in about equal numbers.

A breakdown by the current titles of incumbents shows that a higher percentage of those with corporate titles moved into retirees' slots (49 percent) than those with contributions or foundation titles (26 percent and 40 percent, respectively). The opposite pattern prevails for lateral moves and promotions. Only 13 percent of those with corporate titles replaced predecessors who had made such moves within the company. A third of those with contributions titles replaced personnel who had made lateral moves, and 19 percent replaced those who had been promoted. For those with foundation titles, the figures were 17 and 19 percent, respectively.

Where did the incumbents come from? What were their career backgrounds? Two major points emerge. First, only a handful of incumbents come from outside the business world (government, academe, or nonprofit organizations). Second, there are significant differences in the background of those with corporate titles and those with contributions or foundations titles.

The overwhelming number of persons working in contributions have business backgrounds (see Table 15). For the 421 persons who gave information on their position, 396 had previous business experience, while only 25 (6 percent) came from outside the corporate world: five from government, eleven from academe, and nine from nonprofit organizations (most of them now carry contributions titles). The widely held view that promotion comes from within is amply substantiated by the evidence.

For the incumbent group, 177 hold contributions or foundation titles, 244 hold corporate titles. There are background differences between these two groups. Of the contributions personnel, 41 percent came from staff classifications (associates, coordinators, etc.), and another third came from management (directors, managers, secretary or treasurer). Only 3 percent held vice presidential titles; none had held the title of president.

Table 15: Previous Positions Held, by Title

Previous Position	*Present Title*		
	Corporate	*Contributions or Foundation*	*Total*
Secretary or clerical	17	26	43
Staff (assistants, coordinators)	47	72	119
Management (directors, managers)	111	58	169
Vice president or president	59	6	65
Government	1	4	5
Academic or consultant	3	8	11
Nonprofit organization	6	3	9
Totals	244	177	421

The corporate part timers have higher level backgrounds. Only 19 percent came from staff classifications, while 45 percent came from management. Furthermore, over 20 percent had been vice presidents, and six had been presidents.

A small number of persons (43) have moved from the secretarial or clerical category into contributions jobs, primarily at the lowest staff levels. Most are now working on either contributions or foundation staffs: 17 are working on corporate staffs.

To the extent that an increasing number of women are entering the field (which seems indicated by the high number of full-time female practitioners in comparison with males, and the large numbers of women with fewer years of company service), this could be an unfavorable portent for the profession. There is a phenomenon known as "job turning" in which a field becomes predominantly female: "Job turning" is characterized by the three "LP's"—lower pay, lower power, and lower prestige.

On the positive side, the increase in the number of women in contributions could constitute an opportunity. Some of them may climb to the top of the contributions profession, and others may be able to carve a path into the mainstream corporate structure if they have the requisite management capability, education, training, direction and drive.

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Research Bulletin

Business Voluntarism

Prospects for 1982

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About This Research

This report is the result of a team effort by a number of Conference Board researchers. The contributions research evaluation was provided by Anne Klepper, Manager, Corporate Contributions Research, and Kathryn L. Troy, Senior Research Associate. The survey and data on company plans for urban aid were developed by Leonard Lund, Manager, Urban Research Department. The concept for this research was developed by the late Walter A. Hamilton, Vice President of Public Affairs Research. The report was written by E. Patrick McGuire, Executive Director, Business/Government Research Program, and Nathan Weber, Research Associate.

The Background

On August 13, 1981, the Reagan Administration delivered on one of its central campaign promises: It effected the largest federal budget cut in history. The Omnibus Reconciliation Act reduced federal spending by $35.2 billion in fiscal 1982, cut another $44.0 billion in 1983, and $51.4 in 1984. The budget had passed by a voice vote in the House, and by 80 to 14 in the Senate. On the same day, in a move to stimulate the economy—and also guarantee that future budget architects would be denied remodeling or expansion funds—the Administration initialed the largest tax cut bill in history, reducing tax revenues during 1982, 1983, and 1984 by an estimated $149.9 billion.[1]

A majority of the cuts achieved by the Administration for these three years were directed at the "social program" area of federal funding. Moneys for economic development were slashed by $2.4 billion, food stamps by $10.8 billion, job training (CETA) by $15.9 billion, and so forth. Some programs could be—and were—eliminated entirely, but others, even the programs' critics admitted, deserved to be continued. However, with federal budget support now curtailed or withdrawn, it was alleged that there would be substantial shortfalls, or "gaps," between what moneys had been previously planned for these programs and the federal funds now authorized for them. Thus began the search for resources for what political strategists soon dubbed "filling the gap."

Gap Fillers: A Limited Cast of Actors

Almost from the beginning, it was clear that state and local governments would have to bear a major share of the gap-filling responsibility created by federal budget cuts. But state and local governments had their own budget problems. Stiff resistance to tax rises, plus the continuing impact of inflation, provided little in the way of discretionary funds at state or local levels to be used to offset federal reductions. And few state legislators are enthused about going to their constituencies with the proposition that they are raising taxes in order to make up for shortfalls in federal funding. Such tax increments, if enacted, would cancel out the promised stimulative benefits that the Administration's supply-side economists foresee as a result of federal tax reductions. Thus, the stage was set for a new set of actors in the funding drama—individual citizens, foundations and corporations.

Prior research has estimated the amounts these sources provide to the total of private-sector philanthropy in the United States. In 1980, corporate giving was put at $2.7 billion, while foundations provided an additional $2.4 billion, and $39.9 billion came from individuals. But nearly half of all individual donations are to churches for religious purposes.

From the foundations' standpoint, there appeared little, if any, hope that significant increments in contributions would be available for gap-filling purposes. Foundation giving has increased at an average rate of only 6.4 percent during the past several years.[2] Some studies have shown that total foundation assets, computed on a constant-dollar basis, have actually declined during the past half decade from $25.1 billion to $17.7 billion.[3]

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[1] All budget and tax figures are from Michael Levy, Steven R. Malin, and Delos Smith, *Economic Policy Issues 1981, #3.* The Conference Board. They are based on House Budget Committee, *Summary of Conference Agreement, Omnibus Budget Reconciliation Act of 1981,* July 30, 1981.

[2] Estimated from data in *Giving, USA 1981 Annual Report,* American Association of Fund Raising Counsel, Inc., New York, p.27.

[3] *The Foundation Directory, 8th Edition,* The Foundation Center, New York, 1981, Table 8.

The amount of increase in individual contributions could, of course, be heavily affected by changes in personal income—particularly among upper-income groups. The early results of a number of United Way campaigns do show a slight upswing in individual contributions. The United Way, with more than 2,100 campaigns operating throughout the United States, raised $1.5 billion in 1980. But as the economy slides into a "planned-for" recession, and as consumers' real income continues to shrink, there seems to be little realistic hope that individual contributions will mushroom to such proportions that they can significantly help with the gap-filling task.

This leaves one final source—the business community. And it is against the backdrop described above that the concept of "Reagan Voluntarism" (now titled "Private Sector Initiatives") has begun to evolve. It seemed evident that Administration strategists planned for and anticipated that the business community would significantly increase its various philanthropic activities, and that these increments would help close the gap created by federal cuts. During the Summer and Fall of 1981, two separate Conference Board research groups began to test this hypothesis through direct-mail surveys, interviews, seminars, and workshops. The results of these investigations are described below.

Contributions Budget: Dimensions and Directions

Based on Internal Revenue Service data, The Conference Board estimates that no more than 300 American companies contribute over $1 million per year to a variety of nonprofit organizations. Thus, in assessing how corporate contributors were likely to respond to the Administration's call for increased philanthropy, Board researchers focused on those companies that provide the overwhelming majority of all corporate philanthropy.

A total of 427 companies, two-thirds from the *Fortune* 1,300, responded to Conference Board requests for details on their contributions budget.[4] Sixty percent of those responding said that they were planning to increase their contributions budget for 1982. (See Table 1.) But only 6 percent of all those questioned say that they are increasing their budgets in response to government budget cuts. Nine out of ten of those increasing their budgets say that such increases were planned for prior to any federal budget cuts and are part of the normal practice of increasing budgets each year to reflect inflation and gains in corporate profits.

Over the past five years, increases within the major categories of giving (e.g., education, health and welfare, arts and culture) have ranged between 15 and 25 percent on the average. There is no indication in the current data that any major change in this range is planned. However, it is clear from Conference Board data that several major firms are actually planning to hold the line or even reduce contributions budgets during 1982.

Table 1: Plans for Corporate Contributions in 1982

		Percent	
Companies	*Increase*	*Decrease*	*Same*
Total	60%	6%	34%
Fortune 1300 Firms	67	6	27
Smaller Firms	50	5	45

Besides reflecting downturns in corporate profits and a general belt-tightening among a variety of corporate expenditures, these reductions may flow directly from the Administration's tax cuts. Contributions are, after all, a tax deductible expense. The lower the taxes, the less the need for contributions. As one respondent noted: "The real irony, of course, is that the federal tax cut is a disincentive to giving."

Reallocating Available Budgets

One additional option to help fill various gaps would be to reallocate available corporate philanthropy, putting greater amounts of money into programs such as job training and economic redevelopment, for example, at the expense of philanthropic support for the arts. But the survey data do not support the thesis that companies are planning—at this point—to make any significant reallocation in those funds they do make available for contributions purposes. Six out of ten firms say no readjustments of priorities are yet planned. Among the minority that do expect to change priorities, social welfare services and education get their primary attention, with arts and culture also due for some increases. Health and hospital programs, by contrast, will be getting less. There also seems to be a little evidence that corporate contributions managers will be adding new categories of assistance. Nine out of ten say that they are not planning for any new budget priorities. And nearly 95 percent of those surveyed report no present intentions to hire additional professional staffs for their contributions departments. This is true of the *Fortune* 1,300 almost to the same degree as for smaller companies (91 and 98 percent, respectively.)

Combining Contributions with Other Company Programs

In some firms, the contributions budget can be oriented so that it has a synergistic impact on other company programs, such as direct loans for community redevelopment, low-interest mortgages for inner-city residents, company-sponsored job-training programs, and so forth. More than half of the contributions managers surveyed say they do not plan to use their budgets to reinforce or support such programs as Table 2 shows. (Of course, there are no such programs in a number of companies and, thus, such an option is not available.) In the minority of firms where contributions budgets will be used to help augment other company programs, the vast majority say that they will focus on community-development programs and only a small number opt for on-the-job training or housing assistance.

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[4] The 1,000 largest manufacturing companies plus the 300 largest service, financial and transport firms.

The Disappearing Volunteers

Besides the direct contribution of funds, companies can also assist charitable and community organizations by lending personnel to help in the management and operation of these institutions. Board research has already reported on a number of companies that have chosen to follow this route.[5] It should be noted, however, that in periods of reduced profits, companies are less inclined to lend members of their "first teams" to civic or nonprofit organizations.

Significant increases in the number of people lent to such institutions would have some impact on closing the funding gap, since it would reduce the need for paid staff and would bring badly needed management personnel to the institutions. But, again, a majority of contributions managers say they do not expect any such action on the part of their companies. Contacts with a number of volunteer-dependent organizations, such as United Way, the American Red Cross, and others, point to the fact that these institutions are experiencing ever more difficulty in getting volunteers. "The pool of volunteer workers was made up primarily of housewives," one volunteer organization official states. "Now, a lot of these women are holding down full-time jobs. They're just not available to help staff many of the social programs that are squeezed by reduced federal funding." At the same time, as researcher Daniel Yankelovich has pointed out, the 1970's was the birth of the Self-Generation—a decade in which many Americans began to lose some of their interest in helping others and focused more on their own physical and psychological needs.

The four out of ten companies that do plan to increase the emphasis on personal services say they will concentrate primarily on encouraging employees to perform community service work on their own time. Such efforts will produce some increase in the donation of personal services, executives say, but not nearly as much as could be accomplished if the companies had decided to pay the employees for the investment of such personal time.

Table 2: Plans to Integrate Contributions With Other Corporate Functions

Companies	*Yes*	*No*
Total	44%	56%
Fortune 1300	50	50
Smaller Companies	34	66

Aiding the Urban Communities

Most observers agree that it is the nation's cities that will be hardest hit by federal budget cuts. Saddled with decaying infrastructures, above-average unemployment rates, and chronically high welfare caseloads, cities are in particular need of federal funding resources. As a result, Conference Board researchers sought to determine whether or not companies located in major urban centers had plans to increase aid to these communities, to develop new programs for their cities, or to reallocate the priorities of such programs.

Conference Board researchers selected 425 companies, headquartered in major U.S. cities, and 137 of these corporations responded to a separate survey on changes in their firms' urban agendas.

The pattern of response, obtained primarily from the senior public affairs executives in these companies, was generally consistent with the responses obtained from contributions executives. Nearly six out of ten firms reported that there would be no significant change in their companies' urban-assistance programs. Only a fifth of the firms indicated any plans to increase financial aid to the various urban programs in those cities where they have office or manufacturing facilities.

A Time for Reassessment

Despite the fact that very few companies plan to increase their aid to cities, there is evidence that many companies have begun to "rethink" the ways in which they assist cities. Firms report that they are reassessing the kinds of assistance they provide and looking for ways to make more use of joint ventures between business and communities. Some feel that there are "too many urban programs," and that a consolidation of these programs would produce efficiencies. They are trying, through their assistance leverage, to persuade political and social leaders to effect such combinations.

It is also evident that many of these respondents, who are primarily *Fortune* 500-size firms, believe they are bearing an unfair portion of the burden. "When cities need help," one respondent points out, "they always come to the major companies. But there are literally hundreds of other firms of medium and small size that also have a responsibility to help. And, in aggregate, the amount of aid these companies could provide actually exceeds what major firms are capable of doing."

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[5] See, for example, Nathan Weber and Leonard Lund, *Corporations in the Community*. The Conference Board, Research Bulletin No. 103, 1981.

Another respondent repeats the refrain, heard throughout the survey of both contributions and public affairs executives, that: "Instead of asking more from companies that are already providing aid, politicians would do better to expand the number of firms participating in aid programs."[6]

Few Changes in Personnel

Four-fifths of the firms surveyed in the urban agenda study say that they have no plans either to change the organizational structure devoted to providing urban assistance, or to expand their staffs. (Enlargements in staff are often the best bureaucratic barometer of company intentions to increase the size and scope of urban-assistance programs.) The overwhelming majority believe that they have sufficient staff resources to accomplish their present urban-aid goals, but some plan to change the kinds of assignments for these personnel. Such changes will involve greater assistance in civic management—particularly as financial advisers—and more help in job training and hiring.

Overall, most urban-headquartered respondents say they do not plan to alter their current mix of urban priorities significantly. Nor do they plan to enter the field of "people support" programs, such as welfare assistance and public health.

What Concerns Urban-Based Companies Most

There are five principal areas of interest which head the list of concerns with urban issues. (See Table 3.) Most prominent is the desire for more efficient local government. Respondents feel that local public administrators could do a better job with the budget funds they already have available to them. Complaints about waste in government are as prevalent at the local level as they have been at the federal level. Next, companies are concerned about the quality of public school systems. They have an opportunity, in their hiring and selection process, to observe the quality of "product" generated by local school systems and complain that too many do not meet minimal skills standards.

Table 3: Ranking of Urban Issues of Concern to Public Affairs Executives

Issue	*Rank Order*[1]
Efficient Local Government	1
Education	2
Economic and Downtown Development	3
Unemployment	4
Taxes	5
Minority and Racial Issues	6
Neighborhood Development	7
Public Transportation	8
Energy	9
Crime	10
Cultural Amenities	11
Housing	12
Health, Hospitals	13
Public Welfare	14
Environmental Protection	15
Vocational Training	16
Water Supply	17
Streets, Sewers	18
Other	19
Sanitation	20

[1] By frequency of mention

Firms are generally concerned about local economic development, particularly in downtown areas, and are willing to support such development. Naturally, they are worried about the above-average unemployment levels in urban sectors and the impact that such unemployment can have on welfare costs and crime. Taxes, therefore, also get a share of attention—with many of the companies believing that tax loads could be lightened, perhaps through better municipal management.

The areas of least concern include many elements of the cities' infrastructure, particularly sanitation, water supply, and street maintenance. While nearly all respondents recognize the importance of these elements to the cities' functioning, they do not rate them as high as the issues in which the corporations should be directly involved.

Summary

With nearly 600 executives having been contacted, nearly all senior officials in key corporate posts, certain general observations become evident. First, there is yet no groundswell of enthusiasm or intent for the gap-filling role set out by Administration strategists. The business leaders contacted are as genuinely concerned about the impacts of budget cuts as are political leaders. But there is a widespread sense that political strategists are not aware of the extent to which the business community is already supporting various philanthropic endeavors; and many believe that administration strategists do not have an appreciation of the limited resources actually available to meet various funding shortfalls.

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[6] Corporations will be allowed to take deductions of up to 10 percent of their taxable income as charitable contributions on their federal income tax returns. Analysis of Internal Revenue Service data from the 1977 year, as yet unpublished, indicates that 65 percent of the 1.4 million corporations that had a positive income in that year did not make charitable contributions. However these 918,881 companies had only 15 percent of the assets and income reported in that year. The other 35 percent of the companies did make contributions. They accounted for 85 percent of the assets and income reported.

There is also confusion in some corporate sectors over the premise that various social programs should be continued with corporate rather than government support. One public affairs vice president notes: "Our company supported the President because we believed in the elimination of a number of these programs. Naturally, we're not too enthused about continuing the programs and shifting the burden to the corporate sector."

There is little doubt that many community and nonprofit organizations have received the Administration's message on corporate voluntarism. Over three-quarters of the executives surveyed say that the number of requests for aid has jumped substantially. Some firms report a 300 percent increase in the number of such requests.

One of the difficulties that some executives perceive has to do with another kind of gap—the one that exists between community perceptions of what companies are able to (and should) do in the way of assistance and the businesses' perceptions of their own financial capabilities. Executives expressing these concerns say that a combination of events and government officials may have inadvertently "set up" the business community to be a target for criticism when certain programs have to be cancelled because of lack of funds. In other words, they resent the transfer of this burden and responsibility to the private sector. "We didn't start these programs," one executive points out, "and we shouldn't be responsible for their continuation if federal money is not available."

The Conference Board has been tracking corporate contributions since 1943. Based on such research, the amount of aid provided by companies seems to be closely correlated with corporate profits. Generally, the amount of aid to civic and nonprofit organizations closely parallels both individual companies' economic fortunes and executive attitudes.

A number of the firms interviewed report that, as far as their contributions activities are concerned, they are in a wait-and-see stance. "At this point," one oil company executive says, "we don't know whether all the dire predictions about the effects of social program cutbacks are going to come true. There are an awful lot of scare stories around, but it's still too early to tell what is going to happen. Meanwhile, we're sitting still with our present program and its priorities."

Other companies point out that their contributions budgets were already well-established before the budget cuts took place, and the increments—or lack of them—reflect last Spring's views of what the firms' contributions would be. Again, these companies do not plan to deviate from their aid and contributions program until there is clear evidence that further assistance is needed.